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CASE STUDY: PERU

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PREFACE

The United Nations Research Institute for Social Development, the United Nations Social Development Division and the United Nations Economic Commission for Latin America are jointly conducting a study on the "Unified approach to development analysis and planning", in accordance with Economic and Social Council Resolution 1494 (XLVIII) and General Assembly Resolution 2681 (XXV). As part of the research for this project, a series of country case studies were commissioned, with the financial support of the Canadian International Development Research Centre.

The present study of Peru has been undertaken by Mr. Julio Cotler of the Instituto de Estudios Peruanos. It gives a detailed analysis of the strategy of development recently adopted in Peru regarding both economic reforms and social reorganization.

Donald V. McGranahan
Director

The establishment of the Revolutionary Government of the Armed Forces on 3 October 1968 finally ended a long chapter in the history of Peru. The social and economic reforms which this Government has since been carrying out, as well as the political initiatives which it is promoting domestically and in the country's international relations, have put an end to the neo-colonial pattern of dependence and rule by oligarchy, and have paved the way for a new dynamism based on factors which are new to Peru.

The purpose of this study is to examine briefly (i) the bases of the dependent-oligarchy system and its principal consequences, (ii) the chief factors which led to the crisis in this social and political system, and (iii) the most outstanding features of the process which has been initiated by the Revolutionary Government of the Armed Forces.

1. The dependent-oligarchy system

This form of government was an extension of the colonial system imposed by the Spanish metropolis and maintained by a local land-owning class, which, with the aid of foreign capital, monopolized the resources derived from an open economy. In other words, the alliance of the Spanish bourgeoisie and its Peruvian counterpart controlled the resources derived from the export of raw materials which, after being processed in Spain, would subsequently return as inputs for the further development of raw materials and as consumer goods for the indigenous ruling class and allied sectors.[1/]

Because of the inability of the oligarchic land-owning class to consolidate its hegemony politically during the nineteenth century, which was demonstrated by a continuous succession of risings and civil wars, that class proved incapable of governing the country coherently and of accumulating the capital necessary in order directly to organize the export economy. Consequently, the export economy which was established in Peru was organized first by British and French capital, and in the present century by United States capital. Whereas the British and French monopolized the marketing processes, the Americans established themselves directly in the agricultural and mining sectors, their activities being supplemented by those of certain national sectors of the oligarchy.[2/] Thus, the indigenous land-owning class would appear to have specialized in the performance of intermediary political functions *vis-à-vis* the foreign companies and to have shared with them the monopoly of the financial resources of the country and the control of foreign trade.[3/]

An indissoluble link was thus established between the interests of the oligarchic ruling class and those of foreign capital - a link which made it possible for Peru to

become integrated, in a supplementary and subordinate manner, into the international capitalist economy. Thus, as during the period of Spanish domination, Peru and, in particular, certain agricultural and mining sectors of its economy, again became the adjunct of a metropolis - this time the United States of America.

It is necessary to point out, however, that the relationship between the ruling class and the foreign companies did not prevent the development within this coalition, of tensions due to the particular interests of the various parties concerned. The prevailing social order was, however, never called in question, but the fact that the oligarchy was dependent on others meant that it was in a permanently precarious position, inasmuch as its various constituent groups were affected by any changes introduced by those on whom they depended. Consequently, there was continuous rivalry within the oligarchy which affected its internal coherence and solidity and which was temporarily halted in times of crisis when the army intervened to settle internal class conflicts.

The existence of the dependent-oligarchy system was based on the political ability of the various groups which constituted the ruling class to prevent the development of autonomous activity by the classes subordinate to it. In this respect, the ruling class evolved different policies vis-à-vis the various subordinate strata of society in order to keep them subject to the oligarchic rules. To the extent that various urban sectors, whether middle or lower class, succeeded in obtaining, despite the oligarchy's repression, some significant degree of social and political autonomy, the ruling class found itself obliged to divert to them a portion of the profits which it was absorbing from the dependent Peruvian economy. This process did not, however, in any way affect the dominant position of the ruling class in society. It merely meant that the interests of the middle and lower classes were incorporated into, and identified with, those of the ruling class, with the result that they were neutralized politically.4/

The situation with regard to the rural masses was, however, entirely different. The prerequisite for the maintenance of the dependent-oligarchy system was the political containment of the masses, composed chiefly of the peasants. In other words, the monopolistic and dependent structure of Peruvian society was based on the fact that the majority of the proletariat were totally incapable of organizing themselves politically

along class lines, with the result that they were unable to exert pressure in order to achieve a general redistribution of the resources which the ruling class and foreign capital were appropriating for themselves.[5]

To ensure the continuation of this situation, the ruling oligarchy established a system of patronage the main characteristic of which was the personal relationship which, directly or indirectly, the members of the ruling class maintained with the peasants. Through this personal relationship an exchange of goods and services was developed - a process in which the ruling class determined the nature of social interchange, and separated and divided the common interests and aspirations of the masses. Thus, the dyadic and asymmetric relationship between land-owner and peasant sought to destroy intra-class links by keeping the peasants in a state of political passivity. The ruling class responded to any sign of an effort by the peasants to end this system of patronage by brutally repressive action to restore the status quo of oligarchic rule.[6]

As a result of this domination of the peasantry, the extent to which the latter participated in the distribution of income and social resources was generally extremely limited This ensured a supply of relatively passive and cheap labour, but at times resulted in acts of disorganized violence. Thus, the partial incorporation and political neutralization of the urban sectors, on the one hand, and the repression and passivity of the peasants, on the other, made possible the establishment of the dependent-oligarchy structure.

This social structure had a number of consequences. First, it ruled out any possibility of establishing an integrated domestic market capable of generating a dynamic economy or an indigenous trading class, i.e. a "national middle class". On the contrary, it merely increased the already considerable degree of social and economic hetereogeneity, which would lead some observers to describe Peru as being characterized by extreme "dualism".

Secondly, the fact that there was no domestic market and no class to control it prevented the national integration of Peruvian society - a concept which may be defined as the distillation of values and feelings common to the various classes. Thus, the indigenous masses, because they were unaffected, or affected only very indirectly and partially, by the enclave economy, remained separate from the official, oligarchic culture of Lima and the coast.

Lastly, the ruling class lacked the autonomy and legitimacy necessary to unite the different social classes with itself and the State which it governed. The inability of the oligarchy to organize a political party which could legitimately represent it was a demonstration of its political precariousness. As was noted above, this situation was due to the fact that the ruling class acquired political existence late in the day and under the protection of the foreign enclaves, and that its oligarchic nature made it unrepresentative of the proletariat. Consequently, any significant tension which built up in the society found the oligarchy lacking in the resources necessary to deal with the situation, with the result that it was obliged to resort to military repression. The numerous military interventions throughout the history of Peru bear witness to the political inability of the land-owning class to achieve its own political integration and that of Peru's society as a whole.

To sum up, the neo-colonial oligarchic and dependent structure made the establishment of a nation-State impossible, in that it prevented the economic integration of the country, the development of a national awareness among the population and the political integration of society around a particular class and the State oligarchy.

2. The crisis in the dependent-oligarchy system

Paradoxically, the crisis in the dependent-oligarchy system began at the very time, between 1900 and 1920, when foreign capital was entering the country directly. The full extent of the crisis did not, however, become apparent until the 1950s.

The emergence of the enclave economies led, directly and indirectly, to a rearrangement of all the established social factors and created a dynamism which conflicted with the oligarchic and dependent structure. In direct terms, foreign capital created a proletariat among the peasants on the sugar estates in the north and in the central Sierra, by bringing great numbers of them to work in the mines. At the same time, it ousted the medium land-owners, businessmen and mine-owners by destroying the economic bases of those who had traditionally held power in those areas. 1/

Indirectly it created a demand for food among the workers in the enclaves and those engaged in the subsidiary tertiary activities which were established in the towns as a result of the new dynamism created by foreign capital. This situation helped to extend the market of the rural communities and to expand the haciendas at the expense of

common land, with a consequent transformation of the condition of the peasants.[8] Lastly, and to a very limited extent, foreign capital promoted the establishment of manufacturing and especially textile centres, and the consequent emergence of proletarian foci in the towns.

The influx of foreign capital and the consequent reorganization of the economy had a very important political result in that it enabled the sector of the oligarchy associated with that capital to win and monopolize political power. Thus, for the first time, a genuine centralized political authority was established in the form of a State-oligarchy, with the consequent removal and/or incorporation of the traditional regional leaders.

It was in this situation that, during the first three decades of the century, the proletariat, together with those sectors of the middle and upper classes which had been ousted from their traditional positions and those sectors which were emerging in the new situation, started a firmly anti-oligarchic and anti-imperialist movement. University reform, the organization of workers demanding an eight-hour working day, the organization of the miners and the workers on the sugar estates, and the peasants' uprisings resulted in the establishment of the General Confederation of Workers of Peru, the Communist Party and, in particular, the Aprista party (APRA), which was to become the most important "populist" force in the country during the next 40 years.[9]

Unlike in other Latin American countries, the crisis of the 1930s did not affect the bases of the dependent-oligarchy system despite the political mobilization it caused, probably because Peru had not developed a sufficient degree of class differentiation and political integration of the lower and middle classes to permit any reorientation of the State.[10]

As was noted above, the crisis in the oligarchic system did not become fully apparent until the 1950s, when new phenomena also related to the activities of the enclaves and international demand led to a new and more far-reaching reorganization and differentiation of the structure of Peruvian society, which could not this time be held in check by the oligarchy.

As a result of the resumption of international trade in the mid-1940s, after a period of relative stagnation due to the depression of the 1930s and the Second World War, there was a significant increase in the demand for raw materials needed for the reorganization of the United States economy, for reconstruction in Europe, and later for the Korean War.[11] The external situation stimulated Peru's economy and society,

causing a considerable expansion of the agricultural and mining enclaves, and also of the country's production, which began to be partly managed by Peruvians.

At this time, a brief popular political uprising occurred which, having caused a political crisis, was suppressed through the traditional intervention of the army. It nevertheless caused some of the suppressed aims of the better organized sectors of the proletariat to be formally recognized.

The changes which resulted from this revival of economic activity and from the brief political uprising promoted more effective communication between town and country and started a mass migration, with the result that the size of the towns increased. Because of their closer links with the external market, the towns accounted for the bulk of national income, and consequently offered better opportunities for the immigrants to benefit in some small degree from the profits of the oligarchy.[12/]

The increase in international trade and higher prices for raw materials placed more resources at the disposal of the oligarchic ruling class and the State, and the latter was thus able to increase public expenditure to meet the growing demand of those who migrated to the towns[13/] and of the expanding middle class for consumer goods by promoting the growth of the internal market. This growth in turn enabled the ruling class to devote the accumulated capital to supplying this expanding market. At the same time, however, it was able to control it in monopolistic fashion, thus following the established oligarchic pattern, protecting its enterprises by means of various tariff measures and tax exemptions.

The re-orientation of international capital from the 1950s onwards in turn promoted an influx of new foreign investment, seeking this time to capture the new financial resources created by the export activities, to meet the demand for consumer goods, and lastly, to diversify the enclave economies. This led to the establishment of a number of industries that supplied inputs and introduced a certain degree of industrial processing of the country's raw material output.[14/]

Thus, the 1950s saw the beginnings of a slow process of import substitution. However, unlike in other Latin American countries which had established this type of industrial policy as a result of the crisis of the 1930s, import substitution came about in Peru as a result of considerable external support which, once again, prevented the establishment of a national modern-style middle class.

In the context of this new economic dynamism, the second reorganization of society in less than 50 years occurred, because the diversification of the economy which was taking place was attacking the very heart of the neo-colonial dependent-oligarchy structure, as it conflicted with the relatively closed character of the ruling class and affected the primary relationship with the international market.

Because of this complex phenomenon, new sectors with new conflicting interests were formed. Cracks and fissures appeared within the ruling class as a result of the untimely emergence of new forces, such as the fishing industry, which tried to break out of its monopolistic straitjacket and to develop independently of the traditional oligarchy. The latter, which had hitherto appeared close-knit, was subjected to increasing pressure from conflicting forces that could not be controlled as easily as in the past, since the many new members of the class were making internal relations within it more complex and less malleable. A similar situation existed with regard to foreign investment, some of which reflected directly conflicting interests. This process led to the establishment of various forms of coalition between the oligarchy and international capital, with the result that the bloc which had hitherto remained intact became divided and internal differences arose between "nationals" and "foreigners".

A similar situation was to arise in the "middle class". Whereas this class had previously been composed of a small sector of public and private employees, a few professionals and small businessmen, it now grew and, like the ruling class, became diversified and more complex. In particular, there developed a technical and clerical stratum which grew in importance but whose opportunities for action were limited by the existing social structure. This sector ranged itself in opposition to the oligarchy and, although somewhat different in character, joined APRA, thus providing the ideological and organizational leadership of the new "development" parties which were formed in Peru from the mid-1950s onwards.

This same process of change had a different effect on the lower classes in the towns and rural areas. In both cases it helped, on the whole, to strengthen their demand to participate in the consumption process - a demand which was reflected, particularly in urban areas, in the proliferation of organizations that were pressing the Government for a redistribution of income and access to the resources of society.[15]

As a result of this unwonted pressure, the oligarchy sought to form a coalition with APRA and to make it a partner in the Government, in order to neutralize the increasing opposition to itself and thus to control the masses which that party was capable of mobilizing. Together with these political measures and in conjunction with APRA, the oligarchy established, through the State, limited forms of distribution, presumably to enable the new sectors to be incorporated in the long term in the oligarchic structure. People also began to speak openly of land reform and agricultural settlement, without fear of the police persecution which such talk would have brought about a few years before. There was also talk of lower-class housing and of an expansion of social security.

One of the distributive measures which had the greatest effect was undoubtedly the large-scale extension of school and, later, university education to the lower and middle strata of the population - a course which was to facilitate their rise in the social scale.[16] The opening of education facilities to the lower stratum of the urban population which had recently arrived from rural areas, as well as the continuing social changes which were taking place, caused a breakdown of the traditional educational system and of the oligarchy-oriented university system in particular. This system, which had been under the monopolistic control of middle-class intellectuals and professionals, members of the traditional sectors of society and had an elitist orientation (reflected in the liberal "humanist" professions), was obliged to cope with an enormous increase in the number of students. Moreover, the students, because of their social origin and experience, tended to be anti-oligarchy in their political thinking and to support the destruction of the monopolistic university system.

The universities thus became hotbeds of ideological and political radicalism, which nourished the new "development" political parties, the numerous groups of the revolutionary left, and lastly the guerilla groups, which emerged during the early 1960s.[17]

The changes taking place in the country gave the peasants an opportunity to move into many sectors of society - a process which promoted the breakdown of the patronage system and meant that the peasants were to a certain extent unaffected by the forces exerted by the ruling oligarchy.[18]

Those who traditionally had exercised power over the peasants had presumed that the latter could attach themselves only to dominant figures. Because of the continuing process of diversification, however, the rural population had many opportunities of participating in the process of change taking place throughout the country, by establishing direct links with the migrants living in the large towns and with the new political groupings which were led by the new technical and professional middle class. The market expansion, which promoted a closer relationship between urban and rural activities, also contributed to this change.

As a result of the breakdown of the patronage system, Peru was convulsed, from the mid-1950s to the mid-1960s, by a continuous mobilization of the peasants which shook the dependent-oligarchy structure to its foundations and foreshadowed the final political collapse of that structure and the establishment of another political structure that was to promote democratization and the redistribution of the country's resources.19/

During the 1960s, therefore, Peru was involved in an overt social crisis because of the inability of the ruling class to achieve internal integration and to find a political solution to the problems posed by the reorganization of society and the ensuing mobilization of the lower and middle classes. Other reasons for the crisis included the inability of the old-style and new-style reformist-populist political parties to carry out the measures which they advocated and the fact that the lower classes had attained an insufficient level of political development to assert their class interests.

In other words, the final crisis of the oligarchic system was marked by the general political inability of all the parties concerned to impose their interests and outlook on the society as a whole. In fact, this conflict and the inability of the protagonists to find a solution repeated a classic pattern in the country's history, the only difference being that this time the political and social system of oligarchic rule was called in question and brought close to collapse.

Although the ruling oligarchy was rapidly losing its validity and legitimacy, as a result of the changes that were taking place at all levels of society, its institutional structure survived intact. The army continued to play a role of fundamental importance in maintaining the oligarchic structure while, as we shall see later, far-reaching ideological changes were taking place within that structure.

The army maintained an alliance with the ruling class based on its anti-political inclination, in other words, an alliance designed to block any possibility of the establishment of a force that would voice the interests of the proletariat and would organize the latter on class lines. This anti-political inclination traditionally meant anti-Aprismo and came to be the cornerstone of the military's ideology. Under these crisis conditions, the army negotiated with the various political leaders, thereby following the oligarchic pattern of settling political crises secretly in conjunction with the representatives of the various factions concerned, in order to bring Fernando Belaúnde Terry to power. It was thought that the latter, because of his élitist background, would be able to institute a minimum of reforms which would bring about social peace by technocratic means, without the active or autonomous participation of the lower classes.

Nevertheless, and despite military support, the Acción Popular Government led by Fernando Belaúnde Terry was paralyzed from the outset because of APRA's support for the political faction representing the oligarchy. While the latter sought to head off reforms which jeopardized its interests, APRA tried to neutralize the activities of the Government and to profit from the discontent resulting from the stalemate, thereby raising its stock for a future election.

The vaunted "structural reforms", such as land, tax, banking, educational and business reforms, which were supposed to give the workers a share in the profits and management of enterprises, were postponed or diluted. The Congress, in which the opposition - the oligarchy/APRA coalition - held a majority, succeeded in holding back all the reforms proposed by the executive, which, because of its lack of popular support, in turn prevented any possibility of establishment of a political group that could wrest the proposed measures from Congress.

Another factor in this situation was the political veto imposed by the Government of the United States because of the resumption of the dispute between Peru and the International Petroleum Company (Standard Oil of New Jersey). Soft loans by the United States Government were held up until such time as Peru settled the dispute in a manner favourable to that Company.

Consequently, the Government, which was supposed to solve the problems created by the crisis in the oligarchy, found its hands tied also by the United States at the very time when, ironically, that country was proclaiming the "Alliance for Progress". The only source to which the Belaúnde Government could turn was that to which all Peruvian Governments traditionally resorted in order to maintain their position, i.e. foreign

banks and credits from lenders on "hard" terms. Thus, Peru was to become increasingly dependent on this new link with the world economy.

For their part, the members of the coalition in Congress intensified their patronage activities and offered special assistance to groups capable of exerting pressure for an increased share in consumption - a move which was intended to neutralize them and to incorporate their political interests with those of the ruling class.[20]

The peasants, on the other hand, gained only a patchwork land reform act which was full of loopholes and extremely confusing and difficult to implement. In any case, the Congress limited the funds allocated annually for implementation of the act and, in practice, rendered the latter useless. Against this background, peasant groups began to invade haciendas and to organize strikes which were ended in the traditional manner by means of generalized and violent repression. The peasants who were rebelling against the hacienda system were also threatened by Congress with exclusion from land reform. The guerilla groups which sought to ally themselves with this movement failed dramatically as a result of the measures taken by the Government and the effectiveness of the army, and because of their own lack of co-ordination with the peasants.[21]

In short, an attempt was being made to pursue a policy which had traditionally ensured the continuation of oligarchic rule, i.e. the piecemeal incorporation of the urban sectors and repression of the peasants. But, unlike hitherto, the number of those who might have been incorporated was growing so dramatically that the dependent oligarchy system, because of its regressive nature, was unable to absorb them. In addition, the peasants were becoming increasingly impatient and activist, thus destroying the traditional pattern of the patronage system.

The policy of extending patronage to an ever-increasing number of groups resulted, because of its distributive nature, in a growing budgetary deficit. Furthermore, the country's foreign loans represented an intolerable burden on its balance of payments. These two factors led to inflation and a devaluation of the internal value of the currency by 48 per cent - a step which ended the enormous popularity that had marked the beginning of the Belaúnde Government. Another factor which should be taken into account was the series of public scandals caused by the revelation of the extent of corruption in the civil service. The climax was reached when the Government signed an agreement with IPC ending stalemate which had existed for six years between Peru and the United States.

In a final effort to avert the political disaster which appeared imminent, an alliance was formed between one sector of the opposition and the Government, some of the long-awaited fiscal reforms, such as state backing for the Central Reserve Bank, were introduced, and a first attempt was made to change the tax system. However, these moves came too late to prevent the political collapse of the oligarchy.

3. The role of the Church and the Army in the evolution of the crisis in the oligarchy

The changes which diversified Peruvian society and caused the crisis in the dependent-oligarchy system also affected the Catholic Church and the Army, the institutional pillars of that system.

The changes which were taking place in the Church throughout the world and which were reflected in the Second Vatican Council also played a very important part in the events leading up to the crisis. In addition, as a result of the links which were forged between the armies of the United States and Peru after the Second World War, a modernization process began and new concepts and attitudes were adopted in the Peruvian Army.

In Peru, as in the rest of Latin America, the Catholic Church was traditionally identified and linked with the oligarchic régime and helped to give the State legitimacy. This is illustrated by the Pastoral Letter issued by the Archbishop of Lima in 1937, one paragraph of which contained the words: "Poverty is the best path to eternal happiness. Only a State which can induce its poor to appreciate the spiritual treasure of poverty can solve its social problem".[22]

As a result of the proletariat movement launched in Peru and in the rest of Latin America during the 1950s, there was a possibility that the "anti-Christian" elements, i.e. those who were seeking to destroy the spiritual treasure of poverty, might oust the Catholic Church from the position which it had occupied in Peru for centuries. The Church responded to this situation, however, by importing clergy and money to make good the shortage of both of these which existed in Peru and launched a typically anti-communist political strategy.[23]

Nevertheless, the increasing political integration of the lower-class and middle-class sectors resulting from their constant struggle against the oligarchy led to the emergence of a religious group which came to regard the living conditions of the exploited masses and the Government which imposed those conditions as being primarily responsible for the development of the anti-Christian forces. As will be seen later, a similar interpretation was then being given in the Army to account for the emergence of the proletarian movement.

Consequently, there was increasing support within the Church for efforts to secure "structural changes" that would substantially improve the living conditions of the masses, and for the view that the ruling class was the real anti-Christian element because of its exploitation of the masses. At the international level this view gained ground as a result of the statements made at the Second Vatican Council and the Pope's explicit and emphatic denunciation of the international division between under-developed and imperialist countries. In Latin America, the same note was sounded at the synods of bishops.

This new socially-oriented approach, which was rapidly adopted by a majority of Peruvian and foreign clergy, actually constituted overt opposition to the oligarchy and sought to deprive the State of the legitimacy conferred on it by the Church. One of the chief consequences of this new thinking was the development of new activities among the clergy, who endeavoured to create a new theology, to change the image which the Church had acquired, and to communicate with new sectors of the population. To this end, various groups of clergy associated themselves with peasant movements, the inhabitants of shanty-towns, urban trade unions and student organizations. In addition, through "Courses in Christianity", another sector of the Church devoted particular attention to the new emerging sectors of the middle-class - the "manageable" members of the armed services and the professions.

Whereas in the former case the clergy would encourage and play an active part in the mobilization of the various sectors of the proletariat in support of their class demands, the Courses on Christianity apparently sought to establish a militant form of Christianity among the new technocrats of Peru's military and economic élite. This militancy, developed by setting up extremely cohesive groups, was intended to secure social change on the basis of the positions of authority occupied by the members of that élite. It was hoped that such changes would soften the sharp divisions between social classes without, however, affecting the bases on which the classes were maintained, and in this way impart to society a community spirit which would adapt Christian ideals to a modern situation.

In this way a community approach would be developed, that would be linked with the christian-democratic approach, which also sought to eliminate social conflicts by blending class interests in an organically integrated social whole.

In the Army, as in the Catholic Church, a number of institutional and ideological changes were introduced from the 1950s onwards. These changes made the armed forces increasingly independent of the ruling class and the oligarchic State,

and paved the way for the political intervention of the armed forces in order to promote national development.

The Peruvian Army began its existence as a national institution when one sector of the ruling class succeeded in consolidating its political hegemony under the aegis of the foreign enclaves. Until that time the Army had been divided as a result of its officers' loyalties to the various leaders within the country and the various oligarchic factions which they represented. As soon as one sector of the oligarchy succeeded in ousting the other sectors and their leaders from political power, the Army achieved internal unity and the beginnings of professionalism. The factors which had divided it began to disappear and it became identified with the ruling faction within the context of the centralized State which that faction succeeded in establishing. At the same time, however, because of the political precariousness of the ruling class, the Peruvian Army was constantly obliged to intervene politically in order to maintain the oligarchic system and to settle conflicts which arose within it.

It very soon became clear that the role of the armed forces was to provide support for the new dependent-oligarchy system. When the proletarian movement first made an impact in Peru during the second decade of the present century, as a result of the social transformations brought about by the foreign enclaves, the Army was called in to suppress all political organizations of that nature. In other words, from the time of its establishment as a professional body, the Army defined its role in terms of the interests of the oligarchy and as a means of curbing the class demands of the masses. In this respect the Army adopted an anti-APRA position, insofar as APRA derived most of its support from the lower classes.[24/]

Throughout its history, however, the Army had always been infiltrated by supporters of APRA and by the latter's anti-oligarchy ideology, probably because of the social origin of most of the officers, who were drawn from the provincial middle classes. However, this infiltration was counterbalanced by the newly achieved institutional integration and the prevailing support for the oligarchy.[25/] As a result of this tension, the Army appears to have adopted a technocratic nationalist position which led to the establishment of the Centre for Advanced Military Studies (CAEM).[26/]

After the Second World War, the Peruvian Army established close links with the United States Army through purchases of military equipment and receipt of technical assistance, which made possible the complete modernization of the logistic machinery of the armed forces and increased their professionalism. In conjunction with these

developments, the Army began to carry out strategic studies on the basis of the actual situation in Peru, studies which supplanted the theoretical plans which had previously been adopted word for word from French texts.

In this context, CAEM studied the country's potential in terms of its economic, educational, health and communications structure, as a basis for national defence. Comparison of the results of these studies with equivalent data for other countries, in particular those bordering Peru, led to the conclusion that Peru was seriously under-developed and that its ability to defend itself was therefore severely limited. CAEM immediately devoted its efforts, first, to identifying the causes of this situation, and secondly, to determining which planning methods and economic policy measures should be adopted in order to bring within reach a degree of national development that would enable the country's capacity for national defence to be maximized. Thus a "development" approach was introduced - an approach consonant with the thinking of the new populist parties.

The conclusions reached by the members of CAEM are perhaps summarized in the following paragraph: "The sad and depressing fact is that in Peru real power lies not with the executive, the legislature, the judiciary or the electors, but with the large landowners, exporters, bankers and United States companies".[27]

Various events later confirmed this diagnosis of the country's subordination to foreign interests. First there was the refusal of the United States to sell supersonic aircraft to Peru and in general to supply it with modern weapons, a policy which did not apply to other countries of the region. Secondly, the United States Government was supporting IPC to the detriment of Peru's interests.

These facts, as well as others which were not so widely publicized, led the armed forces to the conclusion that the country's development was being impeded by United States political and economic interests acting in conjunction with the oligarchy. This led to acceptance of the views held among Latin American and Peruvian intellectuals that there was a link between the under-developed state of the country and its dependence on the United States corporations and Government, acting in conjunction with the indigenous ruling class.

In the late 1950s, at the time when these studies were being made by CAEM, a series of organizational changes were carried out in order to rationalize the machinery of the armed forces. As a result of these changes and because of the intensification of the social conflicts, the military intelligence was strengthened. Detailed observation of the wars in Algeria and Viet-Nam, the Cuban revolution, and the proletarian movements in Latin America and Peru had led the military intelligence

service to attach importance to the theory that defence should be regarded not only as an external matter but, in the current international situation, as an internal problem as well. This view was based on manifestly anti-communist arguments. The Soviet Union and China waged political campaigns by setting up centres of subversion among the working class and intellectuals of Western countries in order to undermine their institutions. Whereas the United States could resist conventional activities by those countries, in Peru it was the responsibility of the Army to safeguard internal social peace.[28]

The studies conducted by the National Intelligence Service (SIN) and CAEM concerning the specific conditions which were contributing to the emergence of the peasant movements revealed, however, that the latter were associated with the extreme poverty and exploitation which were the peasants' lot. The traditional system of domination typified by the haciendas came to be the breeding-ground for the peasant movements, which in turn became potential sources of guerilla movements. The conclusion was obvious: the living conditions of the masses must be improved in order to render them immune from the subversive virus which was attacking the institutional structure of the country.

Thus the Army increasingly advocated civic-military action, the institutionalization of community development, which the Belaúnde Government established through the People's Co-operation Programme, and the institution of settlement programmes and agrarian reform. Thus Army engineering units opened up roads through the jungle, thereby driving back the frontiers of agriculture, and in 1962 the ruling military junta which had been established in order to settle the political crisis that occurred in that year promulgated the first agrarian reform act, which was put into effect at La Convención after the suppression of the peasant movement led by Hugo Blanco.

However, it was not until the guerrilla movements struck in various parts of the country that alarm at their potential danger spread in the Army. Although the centres of the guerilla movement were rapidly destroyed, the Army acted on the assumption that new and more determined efforts would be made to destroy the oligarchic structure. It was noted in a report by the Ministry of War that "Although the guerilla units have certainly been destroyed, this does not mean that the "revolutionary" war in Peru has ended. The "virus" of subversion is latent in our society and has stealthily penetrated universities and schools, trade unions and offices, clubs and homes ... The enemy is everywhere. Citizens must understand this and therefore take an active part in the struggle, each in his own sphere of activity and in accordance with his possibilities".[29]

The approach adopted by CAEM and SIN, namely that the dependent-oligarchy structure was creating a favourable climate for a revolutionary uprising, thus assumed increasing importance within the armed forces. National development, a responsibility of the State and of the Army in particular, would - it was held - eliminate underdevelopment, promote national integration, and end the danger of slipping into chaos as a result of a revolutionary civil war. Without national development there was a danger of serious political chaos, which could result in a disaster even greater than that suffered by Peru before the Pacific war.

It was also clear, however, that an anti-oligarchy policy would have to be carried out with a high degree of political control by the armed forces, which would prevent any uprising by groups concerned, would hold in check the aspirations of the masses, and would prevent them from running out of control. None of these things could be achieved by the political parties in the Government.

As the failure of the political parties and their inability to carry out reforms were becoming obvious, since they had set the country on a course apparently leading to revolution there was a growing conviction in the Army, and in SIN in particular, that only their political intervention - in a manner independent of all political commitments - could save the country from political disaster. Thus the scene was set for the armed forces, and the Army in particular, to establish a government consonant with their views and interests.

In short, the crisis of the dependent-oligarchy system was due to the diversification of Peruvian society and the transformation of its structure, which led to (i) a breakdown in the patterns of domination and the bases of legitimacy of the dependent-oligarchy system, and (ii) the development of tensions at all levels of society as a result of the desire to eradicate the oligarchic structure.

These tensions were, nevertheless, characterized by the fact that none of the parties concerned succeeded in mobilizing sufficient resources to impose its leadership on Peru's society as a whole and to end the general stalemate. As we have seen, the ruling class was fragmented and harassed by the new middle and lower classes. The various populist-development parties had, however, proved incapable of mobilizing their forces in order to overcome the constraints which the existing political system imposed on them. Lastly, the lower class was very inarticulate because of its heterogeneous composition, the repressive policy to which the peasants had been subjected, and the way in which they had been manipulated under the patronage system by the various ruling factions during the 1960s.

The military élite, on the other hand, had achieved some measure of ideological integration and, because of its ability to mobilize vertically the forces which it controlled, it was able to clarify the situation, set itself up as an autonomous body vis-à-vis all the sectors of society, and carry out its own political programme. Thus was the Revolutionary Government of the Armed Forces established.

In the final analysis, the establishment of this Government, representative of the armed forces, was due to the degeneration of the dependent-oligarchy system and the emergence of a preventive counter-insurgency programme characterized by the establishment of a nation-State.

4. The national plan of the Revolutionary Government of the Armed Forces

As we have already seen, the oligarchy crisis resulted in the complete internal political disintegration of the various classes of society, and especially of the proletariat, which failed to form a united political front, each sector remaining interested only in its own particular demands. This political disintegration was in sharp contrast with the trend towards ideological and institutional unity within the army in recent years which ensured the readiness of the officer corps to carry out a political plan that would combine preventive "counter-insurgent" action with the promotion of national development.

Thus when the military élite set up the Revolutionary Government of the Armed Forces it enjoyed a high degree of autonomy vis-à-vis society in general and very wide powers of action, free from all organized interference. This situation enabled the Military Government to revolutionize society administratively, i.e. to transform society "from above" by issuing legislative decrees which were implemented by military men specially seconded for that purpose. With the consequent militarization of the State machinery, there was no need to consider initiatives coming from organized sectors or to contend with any concerted political action.

It is the existence of this situation that explains why the measures decreed by the Government found the sectors concerned defenceless, passive and incapable of taking any effective action. And so the former powerful oligarchy faded out painlessly and ingloriously, thereby manifesting its internal collapse as well as the instability of its political constitution.

At the same time, the autonomy of the Revolutionary Government of the Armed Forces rests on the fact that the anti-oligarchical measures carried out correspond to the aspirations of various important sectors of the population. As a result of this fortunate situation, each sectoral measure taken by supporting individual or collective interests, earns the Government the support of the social sector concerned and enables it to extend the basis of its authority. This, in turn, confers on it new and greater autonomous powers.

At first, the constitution of the Military Government was thought to follow the classic type of military intervention and that its object was to act as arbiter of disputes which had arisen within the ruling class owing to divergent viewpoints and various forms of alliance with foreign capital, and to repress popular aspirations towards the re-distribution of wealth. On this assumption, it was thought that the military would try to enlist the support of new sectors of the ruling class which had so far played only a relatively marginal role in political affairs, as well as of new organized sectors of the middle and working classes, thus completing the transfer of government without affecting the hegemonic interests of the ruling class.

As a result, however, of the rapid succession of measures which the Government put into effect, together with its declared intention of executing a systematic programme of anti-oligarchic reforms, the traditionally dominant economic sectors began to take precautions and to dissociate themselves from this "Nasserist" Government.

Parallel with this development, an increasingly large number of professionals, technicians, politicians, intellectuals, trade unionists and priests - sympathizers or militants of the various anti-oligarchic and anti-imperialist groups formed in the country during the past forty years - began to support the Government's action, because they saw in it the realization of their ideals or, at least, because they considered it the only possible means of translating their ideological dream into reality. Their motto might have been "We must climb on board and help to row".

These various sectors, frustrated by the bitter experience of the 1960s - the abandonment of the original APRA programme, the collapse and impotence of the Acción Popular, and the precarious mobilization of the people in support of various shades of the revolutionary Left - perceived in the technocratic action of the Revolutionary Government of the Armed Forces an alternative policy to the kind of national development they had been advocating from different standpoints.

Accordingly, all these groups, differing in vocation and political belief, were merged in the growing State bureaucracy, and engaged actively in the provision of technical advice, but also helped to convince the public of the good intentions of the Revolutionary Government. Henceforth, the professional and intellectual classes of the country, although weak and insecure, were reconciled to the State, and gave it the full backing of their resources in order to give it legitimacy.

It should also be noted that a group of intellectuals who support the Government are playing a highly important role in promoting the establishment of political mechanisms for consolidating the technocratic measures decided at the top level by the Government and thus modifying the military character of the latter, which, in the view of some observers, would be incapable of assuming the role of political organizer[30].

This alliance between middle class professionals and intellectuals, on the one hand, and the military élite in power, on the other, has resulted in a merging of their social interests, the ideological trait of each sector continuing to be discernible, but in a blurred and contradictory manner.

From this association was born a national plan which inherits the anti-imperialist, anti-oligarchic, socializing, "humanist" and development-oriented outlook of the various policies evolved in the sectors concerned.

Set forth in detail in the "Plan del Peru 1971-1975"[31] and explained in numerous speeches by members of the Executive, the plan in question is based on a diagnosis of the social situation, the conclusions of which are the same as those reached some years before by CAEA and the National Intelligence Service. In addition, however it embraces many of the central ideas proclaimed by various intellectual and political factions of the "Left". It may be summarized in a single sentence taken from the Plan:

> "Peru is an under-developed and dependent country within the capitalist System".[32]

Indeed, this sentence provides the key to the Peruvian scene, and constitutes the basis for the selection of alternative approaches to provide a drastic remedy for the situation. The President was to confirm its meaning when he said:

> "Hence we must start out by clearly identifying the basic facts of our situation. The two most basic facts are that traditional Peru is a dependent and under-developed country."[33]

Peru's under-developed and dependent condition is determined by its oligarchic structure, i.e. by the fact that the ruling class retains most of the power in its own hands, thereby excluding the greater part of the population from access to the country's resources. This situation is determined by the colonial nature of its social structure.

"economic power and wealth are concentrated in a very few hands, while the vast majority of the people suffer the hardships of poverty. This has always been the case in our country, and that, in essence, is what is meant by saying that Peru is an under-developed country. In Peru, we have all experienced this harsh and brutal reality, which has benefited very few and crushed the vast majority of Peruvians".[34]

"Ours is a semi-colonial economy and our country is an under-developed one because that suited the submissive and unpatriotic oligarchy. The entire nation has paid with its wretchedness for the culpable greed of past Governments."[35]

The class which created this oligarchic situation combined with the international colonial interests that sponsored and supported its monopoly.

"The forces of foreign domination are virtually allied with those internal forces which have the same interests and seek to perpetuate the gross and unjust imbalances of Latin American under-development..."[36]

"Thanks to this monopoly and its political power, the oligarchy always managed to prevent any genuine industrialization in Peru and invariably sided with the big international consortia, which it served because it was dependent on them".[37]

Because of this under-developed and dependent status caused by the alliance of the native bourgeoisie with foreign forces, the country showed very serious structural imbalances which were reflected in the polarization of classes, which led to disunity, and prevented the integration of the nation and the establishment of a political order in the country.

"When the wealth of a country is monopolized by small groups mainly for their benefit; and when that wealth is inaccessible to large impoverished sectors of the community, that country suffers from major imbalances and profound economic and social inequalities; it is an under-developed country".[38]

"In a country with such sharp contrasts between great wealth and great poverty, it is impossible to talk of real progress or real unity".[39]

Therefore, if the under-development is caused by the oligarchic structure, which results in great inequalities, and by the link which the country maintains, through its ruling class, with foreign capital, all that is required in order to achieve national development is the elimination of these conditions.

"The prerequisite for development in countries such as ours is, therefore, the abolition or drastic reduction of its structural imbalances at the domestic level and of its state of dependency at the international level, because those two conditions characterize the basic nature of its present social order".[40]

In other words, the solution of the problems of under-development and dependence must be resolved simultaneously, and the social polarizations which cause social imbalances must be reduced or abolished. The resulting unification of Peruvian society would provide the country with the political means of overcoming its dependence on foreign countries. Thus, "the concepts of development and change not only overlap, but in reality are virtually synonymous",[41] for, without structural change, economic growth would tend only to magnify the above-mentioned deficiencies.

It is clear from the various Presidential addresses and from the speeches and writings of certain government spokesmen that the development and transformation of the country constitute a Herculean task, because of the powerful obstacles to be overcome both within and outside Peru. For the achievement of that goal, therefore, at least two requirements must be met. First, the leaders of the revolutionary movement must be free from all private social interest and have as their sole objective the transformation of the country and its well-being. Adopting the language of the sporting world, President Velasco and some of his Ministers have spoken of the need to don Peruvian colours and to play to win. In this sense the military élite claims the right to represent the nation, since the Armed Forces "are non-political" i.e. they are not animated by party motives and, what is more, repudiate them. The sole objective of the Armed Forces is defence, security and the well-being of the nation. They are, after all, simply the "nation in arms".

The second requirement for achieving the development and transformation of Peru is <u>systematic action</u> by the State and its Government through global and sectoral planning with a view to the restructuring of society. The military, who are planners by nature, would contribute to such government action the benefit of their technocratic training thereby permitting effective operation on each of the war-fronts - in this case the various sectoral activities of the country.

In this connexion, State planning should play a cardinal role in remedying the following three main situations:

(1) Existence of a rigid social structure characterized by sharp contrasts in the distribution of wealth and in the possibilities of access to the goods and services produced by society as a whole. The wide social cleavages resulting from this differential distribution of social production make it impossible to create a really unified national image.

(2) Dislocation of an economic apparatus whose productive capacity is only incipient and whose reproductive action is virtually nil. This situation tends to create a corresponding situation at the regional level and the two together form a serious obstacle to effective integration of the country and its economy.

(3) Subordination of the Peruvian economy to foreign decision-making centres in which measures are taken that basically affect the economic life of the country and prevent autonomous development for the attainment of national objectives.[42/]

With a view to remedying those deficiencies, the following short-term objectives were defined by the Prime Minister in his address to the nation on 5 December 1968: (i) industrialization oriented towards import substitution, expansion of exports and improvement of the position of Peru within the region; (ii) expropriation of large estates; (iii) diversion of private capital from agriculture to industry; (iv) participation by the State in the operation and control of mining with a view to developing the economic resources of the State; (v) re-organization of the State administrative machinery, and lastly (vi) implementation of tax reforms aimed at securing a better distribution of income.

In this way, the Government would, in the long term, achieve the following goals:

A. A more just society, free from privilege, exclusion and discriminatory treatment in the social, political or cultural spheres, offering greater responsibilities of achieving the full and integral development of human capacities and guaranteeing an authentic national culture;

B. Accelerated and self-sustaining development, supported basically by the country's internal potential, through a productive structure articulated and integrated both sectorally and regionally, and characterized by a substantial increase in the domestic product, more effective utilization of human resources and increased land holding by nationals.

C. A guarantee of national sovereignty, involving a drastic change in the present conditions of general dependency and vulnerability of the economy, by guaranteeing national control of domestic resources, modifying the traditional pattern and increasing the supplementary contribution of the external sector in accordance with the national development policy.[43]

To achieve these long-term objectives, the Revolutionary Government of the Armed Forces proclaimed, in the above-mentioned address by the Prime Minister, the following objectives to be achieved by 1990, when Peru's present population is expected to have doubled: (i) integration of the rural population in the life of the nation by expanding the home market and ensuring a better distribution of income; (ii) doubling of the country's per capita income; (iii) re-distribution of the urban population in a more harmonious manner through creation of poles of economic development; (iv) elimination of internal obstacles to development by encouraging domestic investment through expansion of the economic infrastructure, and (v) subordination of foreign investment to development objectives and reduction of the country's dependence on and vulnerability vis-à-vis foreign countries.

But the plan of the Revolutionary Government of the Armed Forces goes further than seeking to effect a number of social changes which "will modernize" society; it envisages the establishment of a new model for the total organization of Peru's society and economy.

An important sector of the intellectuals who are advising and co-operating with the Government, as well as the military élite, appear to regard Peru's belonging to the capitalist system as the root cause of the country's secular ills, because this system produces a society characterized by social exploitation, selfish individualism and cultural alienation. In this connexion, the socially oriented tradition of the Progressive Social Movement and of the Christian Democratic and APRA parties is consistent with the new anti-capitalist ideology of the Roman Catholic Church and of the "Courses in Christianity" which had a considerable impact in the Army.

For the military, moreover, capitalism implies a continuation of class conflict, which is contrary to its aim of integration. The search for "unity" and national integration, the desire that all Peruvians should don the Peruvian casaquilla and make a concerted attack on under-development and dependence constitute the ideological

leit-motiv of the Revolutionary Government of the Armed Forces. Any factor contributing to disunity or conflict therefore undermines the political plan which they are seeking to implement.

Although the Government is endeavouring to shape a "non-capitalist" type of society, it nevertheless rejects all communist forms of society, such as the Soviet variants. Here, the firmly anti-communist sentiment in the Army and the rejection by intellectuals and professionals of this type of perverted "historical socialism" should play an important role.

Thus, a novel kind of national revolution based on the country's "special characteristics" is planned which will constitute a model for the formation of a united, non-capitalist and non-communist society, "incorporating the best of the socialist, liberal, humanist, nationalist and Christian tradition". The first version of this model was introduced on 6 April 1970 in a speech by President Velasco at the Sixth Latin American Congress of Industrialists:

> "So what we seek is an industrialization that is really new and really just, an industrialization imbued with a social and humanitarian sense which, without rejecting the right of ownership and the right to a return on capital invested, also recognizes the rights of those who, by their labour and efforts, develop resources which, without their creative co-operation would be unattainable. We also wish to see a diversified, monopoly-free pluralist and really competitive industrialization, within which may flourish, side-by-side with private enterprise, co-operatives, self-managed enterprises and State undertakings, with responsibility for developing the basic industries which the economic growth of our countries demands".44/

In his latest message to the nation on 28 July 1972, the President confirmed this approach when he said that the sector of social ownership or self-management had a particularly important role to play, together with State undertakings, in the economic development of the country.

> "... the Revolutionary Government today reiterates its intention energetically to promote the creation of a socially-owned productive sector. This sector will be given priority by the State in the provision of the technical and financial support needed to guarantee its success in vital economic sectors".

"... As I stated on a previous occasion, the Revolution aims at creating a pluralist economy based on three sectors: a major State sector; a private sector of enterprises transformed by the institution of workers' communities which will have the necessary stability and status; and a socially-owned sector to which the State will give priority in the matter of technical and financial support and which will be in the front rank in the over-all economy". 45/

The participation of foreign capital in the implementation of this plan is not excluded, but unlike hitherto, its role must be to supplement the country's own internal development efforts; it must be subject to State control and subordinated to national interests.

"Foreign investment must be subject to national laws and serve to promote national development, observing limitations on its use which are designed to prevent it from being made an instrument of political pressure and accepting control by the State as the guarantor of its legitimate rights, but also as the jealous defender of the interests of our people. The State must reserve for itself the development of natural resources and of the industries which it considers fundamental to the national interest, the protection of which is its primary responsibility. These fundamental requirements having been met, however, the State must guarantee the legitimate right of foreign investors to derive a profit from their investments. Foreign investment in Latin America might be channelled through mixed or private undertakings subject to reversion to the State at the end of a fixed period once the total investment and an acceptable level of return have been covered by the profits. The capital and profits of foreign investors would thus be guaranteed, but all undertakings with foreign capital participation would gradually become national undertakings in which the State would have a controlling share. We believe this might be one way of reconciling the interests of our countries with the interests of those wishing to invest in Latin America". 46/

This conception of the role of foreign capital in the development of Peru and of Latin America is outlined in the Joint Regulations governing the treatment of foreign capital, including trade marks, patents, licences and royalties, approved by the Commission of the Cartagena Agreement on Andean Subregional Integration. 47/

For the full implementation of this political plan for the development and reform of the country, the Revolutionary Government of the Armed Forces has considered of fundamental importance the establishment of an enlarged common market, the Andean

Regional Group (GRAN). This will allow specialization of production, which will permit economies of scale and provide a protected market for the non-traditional exports of this economic region. The present balkanization of Latin America and the presence in the continent of multinational corporations impede the unilateral development of the Latin American countries, whereas the transformation of these countries and their association in a market with a population of some 60 million will help the development of all the countries signatories of the Cartagena Agreement.

It is felt that the establishment and consolidation of the Andean Regional Group, which Peru has strongly supported, will help to win Latin American support for the Peruvian plan, in particular, and strengthen the bargaining power of Peru and of the other members of GRAN in the international capital market and the markets of the major world centres.

At the same time, Peru's foreign policy, which is defined as "universalist and pluralist", i.e. oriented towards the expansion of relations with all States, regardless of ideological considerations, in the context of the international process of multi-polarization, is expected to be a key factor in the realization of the current political plan. Through this strategy, the Revolutionary Government of the Armed Forces is able to obtain international political support for the alternative course it has adopted, which increases its ability to diversify its sources of finance, and reduce the possibilities of blockade and reprisals by multinational firms or the Government of the United States of America, by adopting the measures and following the example of other countries.

The basic idea of the national plan of the Revolutionary Government of the Armed Forces might be briefly summarized as giving the State the directing and driving role in the reform of Peruvian society. This reform is aimed at a re-distribution of social resources which, together with a substantial domestic financial effort, supplemented by foreign aid, will permit development and expansion of the country's economic resources and the absorption of its under-employed population, leading to its economic and territorial integration. This, in turn, will foster the creation of a re-distribution spiral, which will reinforce the action already taken. Such a nationalist policy will enable Peru to become an exporter of manufactures to the Andean market and, in general, to all economic regions.[48]

The Revolutionary Government of the Armed Forces, by promoting the development and reform of the country has, in fact, conferred on the State the role of initiating and directing action to translate into reality the collective and humanistic national plan which has been drawn up.

It is worth noting in this connexion the expansion and strengthening of the State machinery by the introduction or significant extension of State activities in every social sphere. These measures, combined with the reforming role of the State, are bringing about substantial changes in the life of the country, as the State is assuming a role and an importance which it never had previously, and also because an effort is being made to identify the Nation with the State. Hitherto, the latter was the passive executor of decisions which were primarily those of the traditional ruling classes, whose interests alone it represented. By also acting to some extent in the interests of new classes and social sectors, the State is extending its influence to the whole of society.

Upon the establishment of the Revolutionary Government of the Armed Forces, certain ministries were divided up and new ones were created to permit control of activities on a sectoral basis. Some of the ministries, especially those responsible for economic activities, created operational agencies for the corresponding sector, thus assuming a number of functions which formerly had been delegated to the private sector and, within the latter, to foreign capital.

5. Economic reforms

The aim of the new State which is being shaped by the Revolutionary Government of the Armed Forces is, as has already been emphasized, to eliminate the oligarchic capitalist system, with its monopolistic and traditional aspects and its dependence on primary production, and to replace it by a "non-capitalist and non-communist, humanitarian, communal and integrated" system.

An analysis of this system will show that it is in fact and to a limited degree redistributive in certain limited lower-income groups, and that it also integrates and maximizes domestic savings through control by and direct participation of the State. This "neither capitalism nor communism" is, in fact, a form of capitalism that has been reformed and brought up to date. With the pre-capitalist forms of

ownership, production and social relations as far as possible eliminated, it will, it is hoped, make for easy communication between the different sectors of society and of the economy and also between the different strata of the population and the Government. Through this inter- and intra-sectoral integration of society and the State, it should be possible for the first time to eliminate class conflict and achieve a sense of national unity in Peru. The Nation and the State will thus become one.

The social modernization or national integration aimed at by the Revolutionary Government of the Armed Forces, is to be brought about through vigorous Government intervention in the social processes. The new "non-capitalist and non-communist" model as a whole is expected to lead to a State capitalism, in which the nascent middle class will be compelled to take part and which will develop a new form of relationship with foreign companies.[48a]

These inter-related features are especially apparent in land reform, in the reform of industry, mining and fisheries and in the State's new fiscal and monetary policy rôle.

The Land Reform Act (DL 17716), passed on 24 June 1969, and the related Water Resources Act are unquestionably among the measures that have had the greatest global impact because they affect half the population of the country, the bulk of which is subject to the feudal régime that prevails in the rural areas of Peru.

All agricultural land in the country is affected by the Land Reform Act. However, the right to own small and medium-sized holdings (15 to 150 hectares) is recognized, but only under conditions which severely limit their extension. According to a number of statements made by the Ministry of Agriculture, it is hoped that the land transfer phase will have been completed by 1975. So far, 3 million of the 20 million hectares of land in Peru, only 1 million of which is agricultural land, have been allocated to the benefit of slightly over 100,000 families, representing about 8 per cent of the country's rural population.

According to Government plans, the transfer of property ownership to the peasant population should increase the latter's income appreciably and, by putting an end to the profits reaped by landowners and thus to their propensity for urban luxury consumption, will lead to an increase in the demand for consumer goods and industrial

inputs which will raise the very low average productivity of Peruvian agriculture. At the same time the loans and technical assistance which the peasants will receive from the State will increase the supply of food available for the towns, and make it possible at least to keep imports of food - which now account for about 25 per cent of the total value of imports - at their present level for the next three years. A two-way link will thus be established between the countryside and the towns, with the former helping to save foreign exchange which can then be used to import the capital goods required for industrialization.

So that the new agrarian structure will not result in rural profits being transferred to industrialists, the 1971-1975 plan provides for a number of devices to regulate food prices and to enable the rural population to benefit from the new system. The State will play an increasingly important part in implementing this agricultural price policy through the State Enterprise for Agricultural Services, which now controls and markets basic food products.

Because of the shortage of agricultural land in Peru, the Government, in addition to effecting transfers of land, has carried out a number of irrigation projects with external financial and technical assistance. While rationalizing land tenure and agricultural production, the State is thus creating new resources for the development of agriculture and the consequent absorption of the labour surplus, which is estimated at about 40 per cent of the rural population as a whole.

It is assumed in the Plan that the increase in industrial demand as a result of the land reform measures will induce a large proportion of the rural population to move to the coast, where the major towns are located and where most of the country's industrial development is envisaged, thereby lessening the heavy burden of rural under-employment. These people should be absorbed into the industrial sector, which, by expanding between 1971 and 1975 at an average rate of 12.4 per cent, will become the principal factor in the absorption of under-employment.

In the plan for agrarian reform, emphasis is placed on various associative forms of ownership and production. This method of organization appears to be inspired by two main objectives: the first is to maintain the existing production units in order to prevent a fall in the levels of output and productivity achieved by the

haciendas and, where no such units exist, to create units that can be managed using techniques that will raise production per unit. The second objective reflects the "non-capitalist" approach of the political plan. The aim is to establish community institutions to prevent the development of a rural petite bourgeoisie and a rural proletariat, with the class conflicts that would inevitably result.

In addition to the reorganization of the peasant communities, provision has therefore been made for the establishment of agrarian production co-operatives, non-profit agricultural corporations, and programmes for the integration of land holdings, and programmes for the integration of rural settlements have recently been launched.

As has already been mentioned, although small and medium-sized holdings are recognized as valid forms of tenure in the new land structure, they are subject to various limitations under the law: they must be of not less than 3 hectares, and they must not exceed 15 hectares on the coast, or have more than 150 hectares of grazing land if in the Sierra. The holdings must be worked by the owners themselves, as the various forms of sub-letting are declared illegal, the social rights of agricultural wage-earners must be ensured and, finally, owner-managers may not earn profits exceeding 10 times the legal minimum wage for the area. However, if agricultural land in the area is in short supply, all these provisions may be waived under the Act and holdings taken over to be worked under an associative system.

Agricultural production co-operatives are the most common form of association on the coast, where the most highly productive land is situated, and their members earn good incomes compared with the rest of the rural population. For example, the new agro-industrial sugar co-operatives, which employ less than 1 per cent of the economically active population in the rural sector, earn more than half the country's total agricultural income.

The non-profit agricultural corporations were created by combining a number of large Sierra region estates mainly engaged in livestock raising and are centrally controlled. Their managerial staff are appointed by the State, and the communities which were formerly dependent on the estates and/or the workers on the estates have become joint participating members.

Unlike in the case of the agricultural production co-operatives, any profits made by these corporations are shared among the different member communities, a certain proportion being earmarked for the development of community services and another for distribution in cash to the community members. The sugar co-operatives' members, on the other hand, are the individual workers, who receive a cash wage fixed by the central office, which co-ordinates the activities of the co-operatives jointly and individually.

The peasant communities, which formerly consisted of Indians, have been officially reorganized. This has meant compulsory participation of all the inhabitants of a community in its activities, reversion to the community of all land which had been leased out and, lastly, the reversion to the community of land held in private usufruct, on the death of the holder. These communities will thus be transformed into co-operatives in the course of time.

Owing to the scarcity of productive land, and to the vast differences in productivity and consequently in agricultural income, the land reform will not have benefited more than 15 to 20 per cent of the rural population by the time the land transfers have been completed, and a new socially marginal group will thus have been created in the countryside.[49/] In order to remedy this situation, programmes for the integration of rural settlements (PIAR) have been launched this year as part of the overall land reform. These programmes are concerned with the regional integration of agricultural areas in which there may be different associative forms of production and levels of productivity. The programmes will be able to redistribute income on a regional basis, and, through the overall development programmes, promote the diversification of production and the industrialization of agriculture, thereby increasing employment and reducing the differences in income among the people benefiting from the land reform.

As far as compensation for expropriation is concerned, the Act provides for the issue of non-transferable agricultural debt bonds maturing in 20, 25 and 30 years, depending on the total value of the property expropriated, at interest rates of 4, 5 and 6 per cent respectively. Cash payments are made for equipment and livestock. The beneficiaries of the land reform, for their part, undertake to repay to the State the value of the expropriated property on the same terms.

The Land Reform Act also contains promotional provisions in that it grants expropriated landowners the right to claim the entire value of the agrarian debt, provided they invest an equal amount in industry in branches determined by the State.

> "The agricultural debt bonds ..... shall be accepted by the State Development Bank at 100 per cent of their value when they are to be used to finance up to 50 per cent of the value of an approved industrial enterprise in which the holder or holders of the bonds shall invest in cash the remaining 50 per cent of the value of the said enterprise. The shares of the enterprise may not be transferred for 10 years, unless the product of their sale is to be invested in another approved industrial enterprise" (article 187).

In this way the Revolutionary Government of the Armed Forces is endeavouring to achieve one of the goals it has set, namely, the diversion into industry of capital invested in the rural areas.

The General Act on Industry, Mining and Fisheries is the second vitally important measure for the restructuring of the country's economy. The most outstanding of its provisions are the following: (i) participation of the State in these activities, as the supervisor and regulator of their development and as an entrepreneur in production and marketing; (ii) establishment of close intersectoral links in order to maximize the value added of traditional export products and to achieve vertical and horizontal economic integration in the different areas of production; (iii) progressive "nationalization" of these branches of the economy through the acquisition of a controlling interest by the State or domestic capital or both. In connexion with progressive nationalization, there is also a provision, of which account has been taken by the Andean Regional Group (Common Régime for the Treatment of Foreign Capital), calling for the systematic absorption of foreign capital by the State and/or domestic capital. Lastly (iv) internal redistribution within each sector through the establishment of "workers' communities".

The General Industries Act (DL 18352) passed on 27 July 1970 and Legislative Decree 19262 which amends some of the provisions of the Act establish three sub-sectors with different degrees of priority for the "permanent and self-sustaining

industrial development" of Peru. Basic industries "producing essential inputs for productive activities" and specific industries "producing capital goods and other essential inputs for productive activities" are accorded top priority and are reserved exclusively for the State. They include iron and steel, basic chemicals, fertilizers, cement, pulp and paper, machine tools and ship-building (Act 18350, article 4).

Any private enterprises concerned with this type of industry must conclude a special agreement for the transfer of its activity to the State. The participation of any of these sectors (private and community) in basic industries may be permitted in exceptional circumstances and if consonant with the plans for permanent and self-sustaining industrial development, in the following forms:

(a) Enterprises with State participation;

(b) Enterprises without State participation.

In both cases, the enterprise set up must operate on the basis of a concessionary contract specifying the terms and duration of the concession and the manner in which the enterprise shall revert to the State" (DL 19262, article 8).

For the purpose of implementing the plan of the Revolutionary Government of the Armed Forces to control and direct this industrial sector, the Ministry of Industry and Trade has set up Industrias Perú (Induperú) as the agency responsible for the operation of the basic industries.

The second-priority or supporting industries are those "producing goods essential for the population and goods and inputs for productive activities", such as food products, clothing, housing, health, education, culture, recreation and transport. Also included in this category are "producers of goods and inputs for the various productive activities" such as agriculture, mining, etc.

The industries of third priority are regarded as supplementary and "produce goods which are not essential for the population and supplementary inputs for productive activities". No further details are given on them in the Act. Lastly, the industries with no priority at all are those "producing luxury and non-essential goods". Although, under the terms of the Act, the basic industries are reserved

exclusively for the public sector, this sector "shall participate, either alone or in partnership, in the other industries whenever this is necessary for the purposes of permanent and self-sustaining industrial development" (DL 18350, article 7).

Each sector of industry has different tariff, tax and credit incentives according to its level of priority. For example, under article 5 of DL 19262, which amends various articles of the General Industries Act (DL 18350), enterprises are granted tax exemptions for reinvestment and capital formation, but the exemptions must be determined and approved by the Ministry of Industry: "Industrial enterprises shall plan their reinvestment on the basis of medium- and short-term programmes, whether for purposes of establishment, expansion, diversification or modernization, and these programmes shall be submitted for approval to the Ministry of Industry and Trade. Reinvestment shall be exempted from income tax liability only if its purpose is the establishment of new industrial enterprises or the purchase of fixed assets which contribute to the diversification of productive capacity".

The Revolutionary Government of the Armed Forces has introduced various regulations designed to encourage the decentralization of industry and to reduce its concentration in Lima, where 60 per cent of the country's industry is located.

The industrial concerns with State participation fall into three categories; State enterprises, partnerships and mixed enterprises. The first are enterprises owned entirely by the State; in the partnerships the State provides at least 30 per cent of the capital and is associated with Peruvian investors, while the mixed enterprises are those in which both the State and foreign investors participate, but the former holds at least 51 per cent of the capital (DL 19262, article 10).

In addition to these economic provisions, the General Industries Act established the "industrial community" which was to lay the foundation for an internal redistributive mechanism in industry and constitute the starting-point for the construction of the integrated society that is the central concept of the Government's political plan. Subsequently, similar community machinery was set up in other sectors of production such as fisheries and mining, and statements by official spokesmen indicate that this will be done in the petroleum and electricity sectors as well.

"The industrial community is a juridical person created in an industrial enterprise to represent all the full-time workers in the enterprise and to administer for their benefit the assets which the enterprise acquires" (DL 18350, article 23). Industrial communities will be set up only in enterprises which employ more than six persons and/or have a turnover exceeding 1 million soles (about $20,000).

"The capital of the industrial community shall be progressively built up by deducting 15 per cent from the net profit of the industrial enterprise in each financial year. This sum, which is exempt from payment of income tax, shall be reinvested in the enterprise" (DL 18350, article 24) up to a maximum of 50 per cent of the share capital.

"If the industrial enterprise does not submit a reinvestment programme or its programme is not approved by the Ministry of Industry and Trade, and the industrial community does not yet hold 50 per cent of the enterprise's share capital, the 15 per cent of the net income referred to in the preceding paragraph shall be invested in the purchase of shares in the enterprise which are held by the other partners or shareholders.

"The assets of the industrial community shall be increased by reinvestment of the enterprise's net income from the capital which the industrial community has invested in it" (DL 19262, article 12).

Once a community has acquired 50 per cent of the share capital of an enterprise, the profits from its shares will begin to be distributed to the workers. The profits on the 15 per cent of the capital may later be invested in COFIDE bonds or in the formation of new and preferably self-managed enterprises.

When an industrial community is created, a representative is elected to the Board of Directors of the enterprise and thus has a voice in the management. As the industrial community acquires a greater proportion of the share capital, the number of its representatives on the Board of Directors increases proportionately until they constitute half the membership. As its representatives are entitled to inspect the accounts and books and all documents of the enterprise, the community is assured of an effective say in its control.

Two years after the Act became law, Peru had 3,100 recognized industrial communities, of which 2,400 are in Lima. There are about 200,000 workers in the communities; they constitute nearly 7 per cent of the economically active population of the country.

The industrial communities thus have a two-fold purpose: to promote investment and capital formation in enterprises, and to set up machinery for the internal redistribution of assets and income in each enterprise through a unique method of securing wider distribution of its share capital. As Government spokesmen have explained on several occasions, it is hoped in this way to make the enterprises stronger and more cohesive and to put into practice the "integrated and humanitarian" plan.

The General Fisheries Act (DL 18810) passed on 25 March 1971 and the General Mining Act (DL 18880) of 9 June 1971, together with their supplementary regulations, reorganize Peru's two most important export sectors. Fishing accounts for 25 per cent and mining for 40 per cent of the total value of the country's exports.

The Fisheries Act is intended primarily to reaffirm the jurisdiction of the State over the off-shore waters up to 200 miles from the coast, in furtherance of the "March to the West", and to control the development of Peru's marine resources. This does not mean, however, that the operation of foreign flag vessels is prohibited. It should be pointed out that this is one of the main sources of tension between Peru and the United States Government. (50)

The main purposes of the Fisheries Act are to promote the development of fisheries in order to raise the nutritional indices of the population through the intensification of fishing for human consumption, to increase the efficiency of the export sector, to "Peruvianize" the existing enterprises and to redistribute income by giving the workers a "fair share of the assets, management and profits of the enterprise".

To translate these aims into reality, the Ministry of Fisheries, through the State Fisheries Services Enterprise (EPSEP), "shall regulate and participate in the domestic and foreign marketing of products for direct human consumption ..." (article 36) with a view to developing the domestic consumer market. The Act gives the highest priority to this type of fisheries activity, which is still very undeveloped in Peru, and accords it special tax, credit and technical incentives, unlike fishing for export purposes (fish meal), which has third priority only because of its exceptional development and expansion in the last 15 years.

To achieve its main objective, the Government has obtained financing and technical assistance, especially from the USSR, for the construction of a number of large fishing complexes which will make it possible to supply the population with fish in the near

future. EPSEP has also built refrigerating plants in various parts of the country for the storage and distribution of fish for sale, and is carrying out a publicity campaign which, combined with a prohibition of beef consumption on 15 days every month, will tend to change eating habits and give fish a larger place in the diet of the people.

The aim of Peruvianizing the fisheries industry is being approached from several angles. In the first place, the State Enterprise for Marketing Fish Meal and Fish Oil is the only marketing agency for such products, as specified in the policy and directives of the Ministry of Fisheries (article 37) which, in effect, place this branch of foreign trade under State control.

Secondly, it is stated in title V of the Art that all fisheries enterprises in which foreign capital has a controlling interest "must sign an agreement with the State ... specifying a period by the end of which not more than 49 per cent of the share capital" [shall be foreign owned] (article 57) and that authorization for "the establishment of a fisheries enterprise with the participation of foreign capital shall not be given if it is to engage in exploiting the hydrobiological resources used for the manufacture of fish meal and fish oil ... nor shall it be given for [the establishment] of factories to process such products" (article 58). Also, "fisheries enterprises engaging in the production of fish meal and fish oil may not sell their plants nor transfer their licences to foreign or mixed enterprises". However, in order to promote fishing for human consumption, article 62 provides that "enterprises in which any foreign capital is invested and which are engaged in fishing for direct human consumption shall be accorded the same treatment as enterprises in which domestic capital has a controlling interest". The Act also assists the fisheries industry by protecting and promoting the construction of fishing vessels and inputs required for such construction. The integration of fisheries activities with industry is in this way being achieved.

The Act establishes a "fisheries community" and a Workers Compensation Council in all enterprises except those owned by the State, in order to encourage internal redistribution, to promote investment and "to strengthen the enterprise through the concerted participation of the workers in management, the production process, and ownership, and as an incentive to the development of constructive relations between capital and labour" (article 65). The Fisheries Workers Compensation Council is established "for the purpose of enhancing the solidarity of the workers in the sector through compensatory redistribution of the capital entering the sector" (article 68).

The capital of the fisheries community is built up through the deduction of 20 per cent of the enterprise's net profits. This sum is exempted from payment of income tax, and 8 per cent is distributed in cash and the remaining 12 per cent in shares in the capital of the enterprise. Half the 8 per cent representing the workers' cash benefits is transferred to the fisheries community, which "shall establish a liquidity fund ... the total sum of which shall be distributed annually among all workers in the enterprise ... one half in equal shares and the other half in direct proportion to the basic individual remuneration" (article 72). The remaining half of the 8 per cent is handed over to the Fisheries Workers Compensation Council which "shall combine all these contributions and redistribute them among all the fisheries communities in direct proportion to the number of members in each community and the number of days worked by the corresponding enterprises" (article 71).

The 12 per cent representing the share capital of the workers "must be reinvested in the enterprise and shall be capitalized forthwith on a tax-free basis up to 50 per cent of the capital" (article 74). However, should the Ministry of Fisheries decide that such investment is not desirable, shares in the enterprise shall be purchased instead. Half the fisheries community's shares in the enterprise shall be earmarked for the community itself and half for the Fisheries Workers Compensation Council, which in turn will issue its own shares and distribute them among all the fisheries communities in proportion to the number of members in each one and the number of days worked. To prevent this system of distribution from lacking in incentives to production, it is stipulated in article 77 that "the fisheries community shall cease to take part in the compensation system ... should the enterprise concerned fail to make a net profit greater than the percentage laid down in the regulations...".

As soon as a fisheries community is set up, it appoints a representative to the Board of Directors of the enterprise, and the number of such representatives increases in proportion to the increase in the share of the fisheries community in the capital, up to the level of 50 per cent. When that level is reached, the profits earned by the cumulated capital of the Fisheries Workers Compensation Council are distributed on an individual basis and the profits on the 12 per cent are invested in Financial Development Corporation bonds.

It is clear that, as in the case of the industrial sector, the fisheries community promotes reinvestment and the distribution of profits among the workers in the sector. Some 30,000 workers, representing 0.7 per cent of the economically active population, are benefiting at present from the fisheries community system.

The General Mines Act (DL 18880), passed on 8 June 1971, and the decrees amplifying and amending some of its articles, provided the basis for a complete reorganization of the mining sector, which had hitherto been governed by a number of piecemeal provisions notable for the favourable treatment given to mining enterprises and especially to the large investors, mostly American, provisions which were far from beneficial to Peru. Mining is in fact an enclave sector par excellence, since the few insubstantial external economies it obtained came very late and were in any case dependent on the foreign enterprises themselves.

The Mines Act empowers the State to control and participate in mining activities, to keep private mining activities under close supervision and to intervene in the development, marketing and processing of mine production, thereby making for the progressive Peruvianization of mining, the disappearance of the enclave structure and the growth of the value added to the industry's exports.

The Act clearly establishes the State's ownership of the minerals in the soil and subsoil, and under the sea up to the 200-mile limit of jurisdiction, and empowers the State to grant mining concessions to individuals, who must periodically submit their operating and investment programmes to the Ministry of Energy and Mines for approval. If approval is not given, the State is entitled to recover the concessions and dispose of them as it sees fit. This provision is designed to ensure that the concession holders work the deposits in accordance with the national interest as defined by the Ministry of Energy and Mines, and to prevent international enterprises from keeping deposits as reserves, in their own economic interest.

The State reserves for itself the exclusive right to refine copper, which is the main mining product, while respecting acquired rights. This is a specific reference to the refinery of the Cerro de Pasco Copper Corporation. The State also reserves for itself, as a monopoly, the marketing of all minerals and it fixes sales prices through a pricing mechanism for Peruvian products which, in accordance with international principles, should intervene in future in the establishment of mineral prices. In this connexion, Peru is working, together with Chile, Zambia and the Congo, in the Intergovernmental Conference of Copper Producers and Exporters, to obtain better terms from the copper consuming countries.

By holding a trading monopoly in mining products, and participating in the determination of sale prices, the State hopes to intervene decisively in the international market. However, owing to its lack of resources, it has been compelled to enter into association with Cerro de Pasco Sales in marketing through the Empresa Minera del Perú (Minero Perú) "which shall be the body responsible for managing the mining industry on behalf of the State" (article 59). Minero Perú also approves sales contracts concluded by enterprises, charging 0.5 per cent of the contract value, as the theoretical agent for the transactions. However, the recent agreements between the Peruvian Government and China, which cover sales of copper and fish meal, reflect the new role which the Government intends to play in trade in such products.

The nationalization of copper and fish meal exports enables the State to play a fundamental role in Peru's foreign trade as, through those items, it controls more than three-quarters of the total value of the country's exports. By thus taking over one of the basic centres of power of the dependent oligarchy, the Revolutionary Government of the Armed Forces has clearly established the anti-oligarchic and anti-imperialist nature of its régime in terms of primary dependence.

The State also proposes to take a direct part in mineral development through the establishment of Joint State Mining Enterprises (Empresas Mineras Estatales Asociadas) and Special Mining Enterprises (Empresas Mineras Especiales) (articles 40-42) in which it must have a minimum holding of 25 per cent. In the first case the enterprise will be financed entirely by domestic capital (no such company has as yet been established, however) while, in the second case, the enterprise will be based on a combination of domestic and foreign capital or on foreign capital only.

Although Cuajone, which, at about $500 million, is reported to be the largest mining investment in the world, is worked exclusively by a United States company, the Government appears to be pursuing a policy of establishing Special Mining Enterprises in which foreign capital has a minority interest. Thus Minero Perú has signed a contract with a Romanian firm for the operation of Antamina, under which the State enterprise is to hold 51 per cent of the capital. It has signed a similar contract with a Swedish firm to work the Ferrobamba and Chalcobamba deposits and another with an Anglo-Canadian company to mine Cerro Verde. By this means, the Ministry of Energy and Mines hopes to double copper production to 0.5 million tons in the next five years and to be able to refine about one-fifth of that amount.

In the mining sector, as in the other sectors of the economy, the diversification of investment sources is one of the cornerstones of the Government's foreign policy. By this means, the Government hopes to increase the resources available to the State and, above all, to prevent the concentration of investment in the hands of investors of one country, for, if politically supported by the investors' Government, such investment could vitally affect Peru's development and so impair its sovereignty.

Although the Act allows the subsidiaries of foreign companies to remain in Peru, it requires them to declare their capital and to issue share certificates which may eventually be sold on the Stock Market. It also requires the appointment of Peruvian directors in order to promote Peruvian investment in the enterprises. The Eighth Temporary Provision states: "... Peruvian citizens, existing companies and those to be established, which take over the mining activities of subsidiaries of foreign companies operating in Peru, shall not be liable to payment of registration tax, stamp tax, excise tax on sales or the supplementary tax established by article 33 of Act 16900"; however, this provision, which was in force for only one year after the Act was passed, did not achieve the expected results.

Title VIII of the Act contains the provisions designed to promote development of the industry. Under article 124, a depreciation of 100 per cent is allowed for investment and plant up to $200,000 (10 million soles). Profits which are reinvested, up to 300 million soles - later raised to 400 million - are exempt from income tax, provided the reinvestment is approved by the Ministry of Energy and Mines. The rate may be increased in the event of State participation, but the Act does not mention specific figures in that respect. Lastly, imports of capital goods and of inputs pay only 10 and 20 per cent of the tariff respectively. The Act specifies, however, that "tariff reductions shall not apply to capital goods and inputs produced in Peru ..." (article 125).

Companies setting up integrated mining operations, that is, with beneficiating plants, may enter into contracts with the State which will guarantee them the recovery of their investment, a higher rate of depreciation, unlimited utilization of their foreign exchange earnings from sales and tax stability. If the project is carried out in association with the State, these benefits may be prolonged for the time necessary to recover the capital invested, and the tax which the enterprise must pay the State may be reduced by as much as one-third (chapter II).

As far as taxation is concerned, mining companies are liable to income tax only. A progressive compound rate is applied, so that profits of over 100 million soles (about $2.5 million) pay in proportion to the gross return on mining investment at a rate ranging from 29 per cent to 55 per cent (article 119). Peruvians are encouraged to invest in mining by the fact that:

> "If the shareholders in the companies are individuals, the Class III income tax paid by the companies for the fiscal year shall be credited to those individuals in proportion to their capital contribution. This credit shall be considered as payment of income tax up to the limit of the said tax ..."

In addition, article 136 authorizes the investment of agrarian debt bonds in the mining sector.

Mining communities and Mine Workers Compensation Councils are set up in the mining sector except in enterprises with a capital of under 10 million soles. The community's capital is made up of 10 per cent of the enterprise's profits, as against 15 per cent in the case of industry and 20 per cent in the case of fisheries. Of that amount, 4 per cent is deducted for distribution in cash and 6 per cent is reinvested in the enterprise as capital of the community. In both cases, however, the community retains only a fifth, the balance being made available to the Mine Workers Compensation Council for redistribution in cash to all the workers according to the number of days worked.

The Council receives all the capital stock of the different mining communities, and issues its own share certificates, which are distributed among all the participating bodies, as in the fisheries sector.

This profit-sharing system also includes the appointment of representatives of the mining communities to the Boards of Directors of the enterprises, the number of such representatives increasing in proportion to the capital holdings of the mining communities up to 50 per cent of the stock. The profits subsequently deducted are invested either to maintain the communities' share holdings or in bonds of the Financial Development Corporation. As in the case of the industry and fisheries sectors, mining communities have no share in the capital of mining enterprises with State participation, but hold Corporation bonds instead; however, this does not debar the communities from participation in management.

It is anticipated that by the end of this year Peru will have about 60 mining communities comprising 36,000 workers, who represent 0.9 per cent of the economically active population.

One of the first measures taken by the Revolutionary Government of the Armed Forces was the expropriation of the International Petroleum Company (IPC), a subsidiary of Standard Oil of New Jersey, which was operating illegally in Peru and was stubbornly opposed to compliance with Peruvian laws.[51/] The expropriation, which has been publicly demanded by the Armed Forces since the early 1960s and by a number of sectors for many decades before that, put an end to the wearisome and humiliating negotiations which Belaúnde had been conducting with IPC and the United States Government for five years.

The expropriation led to the establishment, under the Ministry of Energy and Mines, of Petróleos del Perú (PetroPerú), which took over the plant and deposits formerly owned by IPC. Since then PetroPerú has made every effort to induce foreign companies to prospect for and develop potential deposits in the jungle region. During the last two years, in fact, it has itself undertaken successful explorations in which a number of United States and European companies have shown interest.

It has so far signed seven contracts with such enterprises. The agreements stipulate in general terms that the enterprises must invest a certain minimum amount in prospecting the concessions, which are to revert to the State in 35 years' time. The formula laid down for payments is simple: the enterprises must hand over half their output to PetroPerú which will be responsible for the payment of taxes to the State.

By this means it is hoped that within a few years the country will have made good its petroleum deficit and be in a position to become a net exporter of petroleum.

Among the various structural reforms carried out by the Revolutionary Government of the Armed Forces, those concerned with tax and monetary policy constitute the basis for the Peruvianization and nationalization of the economy.

In this connexion, the Government has greatly strengthened the position of the Banco de la Nación, giving it firm financial support and making it exclusively responsible for the management of public income and expenditure, thus making it the bank with the largest turnover in the country. The Government has also set up the Banca Estatal Asociada (Associated State Bank) through purchase of a majority interest in three private banks, two of which were on the verge of bankruptcy and ran the risk of being taken over by foreign banks. The State thus controls about 75 per cent of bank capital in the country.

A decree issued towards the close of the last Government's term stipulated that, for private banks to be considered Peruvian, at least 80 per cent of their capital had to be Peruvianized. Only banks so qualified and those associated with the State are entitled

to accept deposits and open branches. Foreign banks, on the other hand, are forbidden to undertake such operations, and have given the Government an undertaking to open lines of credit with capital from their head offices in order to continue operating in Peru.

However, this reorganization of the credit machinery does not appear to have been accompanied by changes in the credit pattern. This still largely favours the private sector, which is not considered one of the priority sectors for the economic development of the country.

As part of the nationalization effort, the Central Reserve Bank under a decree issued in the last four months of the Belaúnde Government, was effectively nationalized, the majority representation of private banks on its Board of Directors being eliminated, and it is henceforth in a position to direct Peru's monetary policy.

The Revolutionary Government of the Armed Forces has further decreed that all capital held abroad by Peruvians must be repatriated and that deposits in foreign currency must be converted into Peruvian funds, thereby bringing $200 million into the State reserves.

In order to encourage and channel domestic savings and investment in the sectors to which the State has assigned priority, and to centralize the efforts of the State to obtain international loans, the Ministry of Economic Affairs and Finance has set up the Financial Development Corporation (COFIDE) which has thus become the executing agency for the Ministry.

COFIDE resembles a holding company, in that it centralizes all the shares issued by public enterprises and is therefore the only body in a position to obtain financing for them. Consequently, plans for the establishment and extension of public enterprises, or for the creation of mixed enterprises with domestic or foreign capital, are submitted to COFIDE by the various official bodies. COFIDE evaluates the plans and, if it considers them viable, it undertakes to secure the necessary financing from private or public savings or from international sources.

The profits which must be earned by public enterprises are capitalized by COFIDE, which furnishes to the enterprises resources for investment in new projects. As explained before, workers' communities set up within enterprises with State participation may not hold any of the corporate capital of such enterprises but must buy COFIDE bonds instead. The legislation concerning the workers' communities in the industrial, mining and fisheries sectors further provides that once a community holds 50 per cent of the capital of a private enterprise, it must thereafter purchase COFIDE bonds with its share of the enterprise's profits. Finally, in order to attract private savings, the bonds issued by COFIDE are exempted from income tax up to a specified ceiling.

State control over banking and the arrangements made with respect to COFIDE thus form the logistic machinery for a special domestic financing effort to implement the policies for land reform, rural development, industrialization and development of mining and fisheries resources within the framework of Andean integration. It is also planned to introduce a tax reform to widen the margin of saving and to change Peru's income distribution, which, even today, despite the application of the reforms already mentioned, shows some of the greatest inequalities in Latin America.

Concurrently with these measures, the Revolutionary Government of the Armed Forces has been remarkably active on the international scene in seeking to multilateralize external financing and obtain political support for its nationalist policy. It has entered into diplomatic relations with countries in the socialist area - the USSR, Eastern Europe, China and Cuba, and is working actively with the countries of the Third World to lead an independent bloc that will be better able to negotiate with the industrialized countries. It is also seeking to break the tacit economic blockade which the United States Government, the large multinational corporations and international financing agencies have imposed on Peru following the expropriation of IPC, the restrictions on foreign capital introduced by the Cartagena Board and the adoption of an independent international policy.

In all international forums the Government is also actively stressing Peru's new independence, citing the structural reforms it has undertaken - reforms which international organizations have been recommending for the last 10 years, and the new political resources which it has developed in association with other Latin American countries (e.g. the 200-mile limit of jurisdiction) and the Third World generally. It has concluded contracts with United States, European and Japanese companies for petroleum and mining development, has obtained credits from Eastern European countries and has signed a trade agreement with China. It has also obtained the support of the World Bank Advisory Group for the refinancing of its external debt and recommendations to the effect that member countries should lend Peru $700 million during the next three years. Moreover, the Inter-American Committee on the Alliance for Progress has approved the provision of substantial financial and technical assistance to the Government of Peru in view of the fact that the latter is pursuing a policy of economic and social development by carrying out various structural reforms.

To achieve the development and transformation of the country, the Peruvian Plan calls for an annual GNP growth rate of 7.5 per cent during the five-year period 1971-1975. This should permit a change in the production pattern and set the country on a course of self-sustaining growth.

Table 2. STRUCTURE OF THE GROSS DOMESTIC PRODUCT
By sector: with growth-rate, 1971-1975

	Share 1970	Cumulative average growth-rate 1970-1975	Share 1970
Agriculture and livestock raising	14.5	4.2	12.4
Fisheries	2.1	4.8	1.9
Mining	6.8	5.7	6.3
Industry	20.9	12.4	26.0
Other 1/	55.7	6.6	53.3
Total (percentages)	100.0	7.5	100.0

1/ Includes construction, commerce, energy, housing, government services, transport, health, education, finance, money and banking, tourism and other services.
Source: Plan del Perú, table 2, page 17. Lima, 1971.

To achieve this rate of growth, according to the Plan, internal capital investment of about $7,000 million (270,000 million soles) will be needed over this period, bringing the ratio of investment to gross product from 13 per cent in 1970 to 21 per cent five years later. This calls for an annual increase of 19 per cent in investment with consumption rising by only 6 per cent.

To achieve this, private investment will have to increase by 10 per cent annually and public investment by 32 per cent. The public share in gross domestic investment will thus rise from 33 per cent to 56 per cent by 1975, so that the Government may by then be supplying 50 per cent of total investment while public spending will have risen from its present level of 19 per cent to 26 per cent of the gross product.

This vigorous growth will depend on the part played by the state undertakings, which by 1975 will have to be investing at 6 times their rate in the first year of the Plan, especially in mining and industry. This mutual interdependence will constitute the key to economic development.

Table 4. PUBLIC INVESTMENT BY PRODUCTION SECTORS, 1960-1967 AND 1971-1975

	1960-1967 (percentages)	1971-1975 (percentages)
Agriculture	8.0	7.6
Transport	30.2	16.4
Mining	-1	16.4
Manufacturing	14.2	25.1
Fisheries	-1	4.2
Other	47.6	30.3
Total	100.0	100.0

Source: Plan del Perú, table 4, page 20. Lima, 1971.

According to the Plan, this increase in investment and the consequential creation and expansion of economic activity will help to reduce the country's unemployment and underemployment; the shortfall in productive employment is estimated to correspond to 29 per cent of the economically active population. The changes in the production pattern which should result from the planned investment would reduce this proportion to 17 per cent by 1975, when the economically active population will have increased by 18 per cent over the five-year period of the Peruvian Plan.

The fact that public investment will be channelled towards capital-intensive industries such as mining and basic industries, however, has led some commentators to suggest that this employment target may not be achieved. According to the Plan, jobs for about 1.2 million persons - about 40 per cent of the total number employed in 1970 - would be created within a five-year period, despite the fact that investment in sectors such as agriculture and construction, which absorb a considerable amount of manpower, is being deferred.[52/] In this connexion, the interest recently shown in the "social area" may well be affected by this problem, since the self-management enterprises would be the most labour-intensive.

To obtain the vast resources the country needs to bring about these changes, the principal agent in the process, the State, must carry out a major internal financing operation. It is considered fundamental to this purpose that the public undertakings should generate surpluses to contribute to their expansion and strengthening. As has already been seen, all the reforms introduced envisage various forms of reinvestment. In this connexion, the Plan is explicit:

"The agrarian reform, through the investment in industry of the agrarian debt bonds, and the Industries Act, through the compulsory capitalization of the share of profits distributed to the workers, will be of vital assistance in the accumulation of capital".[53]

Another mechanism envisaged as a means of increasing the investments called for in the Plan is the implementation of fiscal reforms leading to a substantial increase in tax rates, so that, by 1975, revenue from the income and wealth tax should be doubled. The Plan also states that exports must expand at an annual rate of 4 per cent and must include an increasing proportion of manufactures and non-traditional goods generally, as a result of which foreign currency earnings over the Plan period should reach $6,800 million. However, the foreign exchange required for imports over the five-year period will be $7,500 million, while imports of capital goods will form 50 per cent of the total by 1975, compared with 37 per cent at present.

Lastly, the Plan assumes an external financing inflow of $1,800 million by 1975 and that this will be the determining factor in raising the investment rate and avoiding a balance-of-payments crisis.

The Plan expects a surplus of $33 million in Peru's balance of payments by 1975, but this estimate is based on the best possible conditions for Peruvian exports, and on the assumption that the public sector will receive $1,100 million in foreign loans. This explains the interest of the Revolutionary Government of the Armed Forces in concluding agreements with foreign enterprises for the development of copper and petroleum resources which would enable this weakness of the Peruvian economy to be overcome.

The Peruvian Plan makes it clear that the foreign trade sector of the economy is a bottleneck which will be difficult to overcome and which endangers the entire plan for the development and transformation of the country.

"Although it is considered that the inflow of foreign exchange from our foreign trade and long-term private capital flows will tend to increase, the high cost of servicing the country's foreign debt and the increasing import requirement for the capital investment and industrial equipment effort will lead, during this period and especially in the final years of the Plan, to a heavy burden on the balance of payments which may exceed the country's capacity"[54]

In brief, the Plan would appear to rely, for a substantial increase in investment leading to a change in the country's production pattern, on a considerable input of foreign capital to supplement the domestic financing effort. It is on this point that

a number of question marks appear in relation to the Plan of the Revolutionary Government of the Armed Forces and its feasibility.

In the first place, the military Government has reiterated its intention substantially to reduce the country's dependence on foreign governments and foreign enterprises, in order to achieve independent and self-sustaining growth. In the new development model, it is proposed that the State should concern itself directly with the inflow of foreign capital (or in its absence, the expansion of suppliers' credit), controlling it and restraining its traditional effects. As has been pointed out by various writers, however, this new arrangement implies a new type of dependence of the country on international capitalism, with the difference, as compared with the earlier situation, that the relationship will no longer be one of primary dependence.

In the second place, it remains to be seen whether foreign capital will be prepared to intervene in the manner proposed by the military Government, and on the desired scale. It is a question, ultimately, of the ability of the Revolutionary Government of the Armed Forces to achieve a "thaw" in relations with the United States Government and the international financial bodies in which the latter plays a leading role and to secure their massive participation, together with the multinational enterprises, in the Peruvian project.

To translate this set of proposals into reality, the Plan assumes a rise in wages, related to the increase in the productivity of labour, at a cumulative annual rate of about 4 per cent. Prices, on the other hand, are expected to rise by 7 per cent, which is a lower rate than that experienced over the past 10 years. Nevertheless, the introduction of a minimum wage policy, which means a wage-increase of some 30 per cent in the area where the labour force is most concentrated, the extension of social security to broader sectors of the population and the various reforms introduced, which will mean a redistribution of income for certain population groups and a consequential increase in demand, may create inflationary pressure that is likely to affect the whole of the measures proposed in the Peruvian Plan. According to some independent observers, in fact, the rise in prices during the present year has been as much as 22 per cent.

In brief,

> "The economic policy drawn up for the medium term calls for an extraordinary investment effort, mainly financed from domestic savings and in which the public sector will play a preponderant role, with the object of making possible permanent and self-sustaining growth ... The measures proposed are designed to

expand the country's economic capacity and, at the same time, to reduce the great inequalities in the distribution of income, transfer economic and political power and diminish dependence on foreign sources and regional imbalances".[55]

A rapid examination of the principal legislative proposals designed to reform the behaviour of the country's economy and of the development plans of the Revolutionary Government of the Armed Forces provides clear confirmation of some of the points made at the beginning of this section.

First of all, it is clearly seen that the State will play a new role, that of the country's chief capitalist, as producer, exporter, importer, investor and banker, so that it will become the principal generator and reproducer of capital, in close association with large-scale foreign investment.

This new arrangement leading to a partial and segmentary redistribution of income and property (the agrarian reform and the institution of "workers' communities", as well as the alteration of the pattern of class domination) means that the generation and reproduction of capital by the State will in fact be carried out at the expense of the lower classes and in accordance with the logic of the capitalist system to the benefit of the private sector of the economy. Thus, ultimately, State capitalism will be subsidizing and promoting the development of the middle class both in Peru and in the industrialized countries.

Secondly, it is undeniable that the new relationship being established between the State and foreign capital will be of greater benefit to the country as a whole than was the former link. However, class differences being particularly marked in Peru, the benefits obtained will be distributed differently among the social classes and a new form of imperialist domination and dependence established, this time through the action of the State and the class-restructuring that takes place.[56]

Recent statements by the President indicating that the Government would encourage the creation of a "social ownership" sector - co-operatives and "self-managed" - and that the private sector (and in this connexion it should not be forgotten that foreign investment is of crucial importance to the country's economic planning) and the State, acting jointly, will be the pillars on which the future economic and social structure of the country will rest nevertheless appear to conflict with this argument. The establishment of such an economic sector in a framework of class domination will give "social ownership" a complementary role in capital formation and accumulation within the framework of society as a whole.

It should not be inferred from this that the "social ownership" sector would not, if it grew significantly, be of any importance in the country's political and social future, since it might be a major source of friction in the relations between the different classes of society.

6. The political mechanism of the national plan of the Revolutionary Government of the Armed Forces

The installation of the military government in 1968 and the far-reaching changes the latter has been making in the social and economic structure of Peru fall to some extent into the pattern of the anti-oligarchic and nationalistic revolutions that have affected several Latin-American countries in recent decades.

Broadly speaking, the characteristic of the anti-oligarchic and nationalistic movements in Latin America has been that, ideologically directed and guided by the petite bourgeoisie, they aim, through political mobilization of the masses, at eliminating the pre-capitalist sector of society and the tendency of foreign capital to form only an enclave in the country, two factors which hampered any national capitalist development. The inter-action of these dominant features of the social structure is the basic cause of unequal development and, ultimately, of the crystallization (to a greater or lesser degree) of the country's social and economic heterogeneity, which prevents expansion of the domestic market and national integration.

The modernization of society aimed at by these anti-oligarchic, nationalist movements, i.e., the integration of the different sectors of production and the various sectors of society in a homogeneous unit, should, on the contrary, help to create a wider market and to shape the nation. In their turn, those sectors should, according to the ideology of these movements, lead to the establishment of a representative State which, through management of the economy would encourage the development of a middle class, thus "nationalizing" both the country's society and its production.

The anti-oligarchic and nationalist revolutions in Latin America might be viewed, having regard to the specific historical and social development of the region, as "middle class revolutions". In Peru, the Aprista party was for some time the typical ideological spokesman for this type of anti-oligarchic nationalist movement and, although to a different degree, so was the Communist party, after the death of Mariátegui. The political parties set up during the 1950s and 1960s also followed the same tradition, but, as we shall see later, they included in their aims some objectives that would tend to modify the capitalist structure as such.

Owing to the "postponement" of the anti-oligarchic revolution, at a time when the pre-capitalist sector of society was dominant, Peru experienced a major reorganization of the economic bases of production and social relations during the last two decades. This change meant the transfer of social and economic power to groups which imposed the capitalist mode of production on society as a whole, and in those groups, foreign industrial, financial and commercial interests were of fundamental importance.[57] This social reorganization led to a split in traditional society and the emergence of strong popular pressures that resulted in the crisis of the dependent-oligarchy system.[58]

The result was that when the oligarchic society entered into its ultimate crisis, during the 1960s, the pre-capitalist sector of the economy and traditional social relations were of only marginal significance for social development, despite the fact that a large proportion of the country's population, especially the rural population, was still in the pre-capitalist sector, although profoundly penetrated and affected by the dissolvant forms of power capitalism.[59]

However, in this state of conflict, the political supremacy of the dominant oligarchy and of the foreign "enclave" constituted an obstacle to the full development of capitalism in Peru, as it excluded any possibility of expansion of the domestic market, of national development and of political integration of the society on a new basis of dominance which would give such development legitimacy.

In these circumstances, the Peruvian middle class - in broad general terms - found itself divided into an oligarchic and traditionalist group and another group closely associated by the new type of link with foreign industrial and commercial capital. While the first group again began rapidly to decline, the second found itself in a position of social ascendancy, but owing to its dependence on foreign capital, it could

never develop, as in the nineteenth century, an independent capacity to initiate, direct and complete the break with the pre-capitalist remnant in the country and with the "enclave" economy which blocked its progress and that of the country as a whole.

For its part, the lower middle class, especially the groups led by the Aprista Party, combined with the political remnants of the oligarchy in the hope of controlling the changes which it was presumed would destroy the traditional order. Thus, after fighting for 30 years to set up a native capitalist system, APRA lost control of the changes taking place in the country and with that, any chance of realizing its original ideological aim. Other political groups among the lower middle classes were fragmented and disunited, and lacked the will to break the bonds that tied them to the old oligarchic institutions. The proletariat, finally, was incapable of acting autonomously and attaining its class interest, being tied to the leadership of the lower middle class parties, chiefly the APRA and Popular Action parties.

From that point onwards, as described elsewhere, the relative institutional and ideological homogeneity that the military élite of the dominant oligarchy had achieved enabled it to mobilize its authority and substitute itself for the social classes and their political organizations and to lead the country's development. In this way, the Armed Forces took over the tasks that theoretically should have fallen to the middle or lower middle class.

In short, the new situation that had developed in Peru meant a confrontation between the dominant capitalist sector and the social structure based on that sector, on the one hand, and the traditional sector and the "enclave" economies, on the other, owing to the prevention by the latter of full development of the country's capitalist modernization. The result of this confrontation was the dramatic political crisis of the 1960s, in which the autonomy of the Armed Forces vis-à-vis the various protagonists was clearly shown.

It was because of this weakness of the traditional sector that the Armed Forces, having become the Government, were able to rise above the various classes and political organizations working for the anti-oligarchic nationalistic revolution, by implementing administrative and technical measures that put an end to the weakened and unstable traditional organization of society and the foreign capital "enclaves". The anti-oligarchic revolution led by the Armed Forces was therefore technocratic in character and did not have to rely on political mobilization of the masses. In this respect the situation differed from that which had prevailed when the pre-capitalist sector and foreign companies were the dominant features in the organization of society.

Only these circumstances can explain why the administrative changes the Army Revolutionary Government brought about were achieved in an atmosphere of relative calm and without any effectively organized, open opposition by the groups affected. The fact that the changes were brought about under military control obviously contributed to this situation. It is equally obvious, however, that although the military intervention played an important part in maintaining social order, it was not the determining factor. Behind this calm was the social fact that the traditional forces were restrained by the new dominant forms of production and social relations.

At the beginning of this section, when the action taken by the Revolutionary Government of the Armed Forces was described as part of an anti-oligarchic, nationalist revolution, the meaning was precisely what has just been described, i.e. the changes made by the military Government affected sectors of society which were no longer dominant and were, in fact, blocking capitalist development. Secondly, for the same reason, these measures could be carried through without recourse to ideological and organizational mobilization of the working population and the middle class and without any serious opposition from the sectors that were clearly in retreat.

However, the fact that the country's anti-oligarchic revolution was "postponed" at a time when the pre-capitalist sector was dominant in the economy laid the basis for the anti-oligarchic trends and pressures that developed while capitalism was becoming dominant and for the assimilation of ideas that conflicted with the ruling system as a whole. Thus, political parties such as the Christian Democracy and the Social Progress parties acquired a socialist tinge, as did the Church and the Army, although for different reasons.

With this dual attitude, anti-oligarchic and nationalist on the one hand and anti-capitalist on the other, the Revolutionary Government of the Armed Forces was inheriting, and to some extent taking over, a political tradition that had been developing over the previous 40 years. For this reason, some of Haya de la Torre's writings of 35 years ago[60/] remind one of President Velasco's speeches, and his proposals seem - with due allowances - to have been followed by the military Government. The same could be said, however, of the writings and proposals of various writers and politicians of the Left, attacking the whole capitalist structure, in the 1960s.

The Revolutionary Government's position, midway between an anti-oligarchic and nationalist revolution and a pressure to break up the whole system of domination, was revealed in the swift eradication of the traditional power bases, the considerable

restrictions imposed on the activity of the foreign enclaves and the establishment of a new kind of relationship with foreign capital, and also in the unfamiliar power of the State which gave a new dimension to the development of "reformed" local capitalism, subject to the acceptance of the working community and promising the establishment of a "social ownership" sector. This unusual combination aims at establishing a society that is "non-capitalist" and also "non-communist" (in the Soviet sense) but rather will lead towards a "Yugoslavization" of the economy and of society and will facilitate the country's progress towards a pattern that will eliminate class antagonisms.

But, just as, formerly, the forms of capital accumulation favoured by the "enclaves" involved pre-capitalist types of production and social relations typical of traditional society, today, because of social pressures opposing the system of domination, the development of capitalism has to include, in addition, forms of "social" ownership, because the pressure of the proletariat's demand for employment and income is revealing the inadequacy of the anti-oligarchic and nationalist reforms and producing a trend towards re-organization of society through a major redistribution of social resources. As the National Development Plan reveals, the State's employment capacity is very limited, since no effort is made to alter substantially the pattern of income distribution and because the Plan calls for State investment in the capital-intensive sectors.

In these circumstances, the co-operatives and "self-management" enterprises would constitute an extension of the "community development" and "self-help" programmes that might offer employment for the underemployed, integrate them in the market and enable them to obtain a share of the overall product gained by the private sector and the State.

The anti-oligarchic and nationalist reforms carried out by the Revolutionary Government of the Armed Forces, and the consequences of these measures, such as the expansion and strengthening of the State and of local capitalism, have in fact involved the genuine and effective integration of the interests involved and recognition of the claims advanced in the past by the various social classes and groups. The agrarian reform measures, the reform of capitalist enterprises through the establishment of workers' communities, the reorganization of the educational system and its consequent expansion, the recognition of the problems of and the provision of help for the marginal urban districts, and the recognition of trade unions and the wage increases backed by the Government all fall within this context; in the same way, the new symbolic forms

of national representation, such as the incorporation of Tupac Amaru, and slogans such as "landworkers, the landlord must not feed on your poverty!", are part of the same identification with popular needs and demands.

In this sense, the Revolutionary Government of the Armed Forces is to some extent seeking to democratize the State, by recognizing and espousing the claims of those groups of the population which have hitherto been ignored politically. In the same way, it is seeking to redefine the role of the native capitalist sector by giving means of achieving expansion under a new formula that does not exclude the other sectors of the population.

To the extent that this democratization covers large population groups, the Revolutionary Government of the Armed Forces is broadening its basis, and the State can claim a degree of legitimary previously unknown in Peruvian history. For the first time in 150 years as a republic, Peru is developing without having to face political crises endangering the stability of the régime.

The new type of State which the Revolutionary Government of the Armed Forces is seeking to develop might be defined as multi-class and pluralist, inasmuch as it takes into account, within the framework of capitalist development, the demands of the various social classes and seeks to balance the tensions between them, which results, of course, in some ambivalence in the granting of concessions to the different classes. The integration of all classes and all sectors in a single entity that generates the supreme loyalty, that to the nation as a whole, i.e. to the State, is the ultimate objective of the Revolutionary Government.

The political plan for class reconciliation and harmonization being carried out by the Revolutionary Government of the Armed Forces involves various measures which have the effect of giving the State power to centralize all political initiative and so deprive the various proletarian sectors of any opportunity to express their demands in political, class terms.

The technocratic, anti-political approach adopted is based on a fractional distribution of social resources and a "functional and territorial" hierarchic relationship between the popular organizations which facilitates authoritarian control of the people's activities. This political method is a corporative, anti-liberal and anti-class variant, belonging to what has been called "the Iberian tradition".[61/]

The scheme is described in the "National Development Plan", which, under the heading "Organization" and referring to "Strategic action areas for social mobilization", states:

"The organization of that part of the population which is on the periphery, both territorially and functionally (economic, cultural and social organizations) must be the central objective of the mobilization. Through their organization, the dominated groups will gain awareness, discover their social strength, learn to put forward their interests and guide and channel their activity to support the process of change; through their organization new leaders and representatives will arise and leadership will be renewed."

"The organization of the population includes the whole range of territorial and functional organizations such as municipalities, community organizations and councils, industrial communities, co-operatives, self-management enterprises, non-profit agricultural societies, trade unions, guilds, "young village" associations and committees and groups for the defence of the revolution."

"While organization of the population provides the basis for effective participation, through promotion of its interests and the creation of a rational system of communication with the Government, specific machinery will be required to promote direct and effective participation of the population in the process of decision-making and in the execution of development programmes and projects, as well as instruments for formal contact at the regional administration amd municipal organization level."

"This refers specifically to the organization of the basis for a system of inter-action and joint consultation and programming between the development services and the population organized."62/

The need for this structuring of the population is explained in the Plan:

"The foregoing is based on the fact that putting a policy of structural transformation into effect does not automatically guarantee that a traditionally dominated people will immediately become capable of understanding such a policy and benefiting from it. Having lived for centuries in subordination, such a population is virtually incapable of fully assuming its responsibilities in a new situation in the short term.

> As a consequence of the multiple disintegrating effects of social domination, its awareness of the fundamental problems that affect it is unclear and its perception of the central problems of society as a whole is incomplete. It is therefore unable at first to achieve solidarity and organize itself in its own interest and in the interest of the new society that is emerging as a result of the far-reaching socio-economic changes brought about by revolutionary development."[63]

To direct the "social mobilization" proposed in these declarations of intent, the Revolutionary Government of the Armed Forces set up (DL 18896) the National Scheme of Support for Social Mobilization (SINAMOS), incorporating in it the bodies concerned with the public services for the masses, to ensure the "conscious and active participation of the population in the tasks required for economic and social development". As stated in this law, the objectives of SINAMOS are:

(a) Training, guidance and organization of the population to supplement action by other sectors;

(b) Encouragement of the development of non-profit bodies such as co-operatives, SAIS, workers' communities, rural communities and the like, without interfering with the technical responsibilities of each sector;

(c) Communication and, in particular, a dialogue between the Government and the population.[64]

The SINAMOS organization is superimposed on the country's military organization. The chief of each of the ten SINAMOS districts is at the same time chief of the corresponding military district and directly subordinate to the head of SINAMOS, a divisional commander with ministerial rank.

In examining the legislation governing the agrarian, industrial, mining and fishing reforms, we have seen that in each case the resulting organizations, whether co-operatives, non-profit enterprises or workers' communities, are required to redistribute their income from the profits of the undertaking among the workers, either in cash or in the form of shares. In this way the various worker groups are split up, creating an internally disunited social sector.

Each of these bodies is required by law to be duly registered with the appropriate Ministry, according to its social function. At the same time, however, all the "functional" production units are integrated in a single organization. In this way,

the Ministry of Industry was able to reorganize the National Association of Industries, by introducing representatives of the induatrial communities, while the Ministry of Fisheries did the same with the National Association of Fisheries and the Ministry of Power with the National Mining Association. Thus, just as the workers' communities were established to "strengthen the enterprise" and "combine the forces of capital and labour", class interests are being integrated under the cover of the functional interests of production sectors, without regard to class antagonisms and with the deliberate intention of eliminating them and creating, over and above them, "national" interests.

In order to control the popular classes living in the marginal urban districts, now baptised "Young Villages", and to provide them with the assistance they need for their integration in urban life, each town has been assigned to the corresponding military district, which in turn coincides with one of the SINAMOS districts. The military chief of the region and of SINAMOS is responsible, together with his staff, and with the technical advice of SINAMOS, for organizing the population in "neighbourhoods" and directing, with Government support in the form of funds and equipment, the replanning and rehabilitation of the Young Villages. On account of its size, metropolitan Lima has been divided into four zones, each under a garrison commander.

By means of this organization of the population of the Young Villages, with their labour and financial contribution and with the specific backing of the State, water and drainage and electricity supply networks have been installed in many of the marginal districts of Peru's towns. This "aid" policy, which precludes any likelihood of the problems of these people being viewed in terms of their own social subordination, plans the solution of the problems in terms of meeting immediate needs and seeks by this means to dissolve the political and class interests of the proletariat.

One of the most striking examples of this type of vertical and authoritarian integration which is the aim of SINAMOS is the way the Government has dealt with the legal status of the agrarian organizations. Immediately after the dissolution by administrative action of the oligarchic National Agrarian Association, machinery was set up by legislative Decree 19400 to regulate the activities of these organizations of the rural population.

It is stated in the preamble of this legislation that:

"... with the unification amd mutual co-operation of large groups of rural workers and the creation of internal links among them, the causes of friction and antagonism will be eliminated, thus furthering the social and economic development of the nation; ...".

But immediately thereafter, in article 1, it is provided that "rural workers may set up agrarian organizations, which shall be governed by the provisions of this legislative Decree"; and, in article 4, the purposes of the agrarian organizations are defined as follows: to safeguard the common interests and rights of their members, in accordance with the national interest; to give advice to their members; to furnish to their members social services not provided by the State, or to supplement the services which the latter does provide; to train their members so that they can participate effectively in the tasks of development; to publicize the provisions and measures adopted by the public authorities for the rural areas and to co-operate with State bodies in activities relating to the economic, social and cultural development of such areas. In addition, therefore, to the "assistance" functions assigned to the agrarian organizations, the last two purposes mentioned are points of contact between the rural population and SINAMOS, and through it, with the State.

Article 6 supplements the foregoing by stating quite explicitly that the agrarian organizations are prohibited from "pursuing party political aims ...", and this was strictly enforced during the elections in the sugar co-operatives when the military advisers insisted that there should be no political discussions.

Furthermore, to obtain official recognition, the agrarian organizations "must compulsorily register with SINAMOS, whereby they shall automatically acquire legal personality". Similarly, article 41 provides that "legal entities not duly registered in the register kept by SINAMOS may not use titles appropriate to agrarian organizations ...". Lastly, to reinforce all these provisions, it is stipulated that "by decision of the Agrarian Tribunal, at the request of SINAMOS, any agrarian organization engaging in activity unrelated to its purposes or contrary to the law ... shall be dissolved".

Crowning all this control is Transitory Provision One of the Decree which provides for the dissolution of all rural organizations in existence at that date, thus ensuring strict control over such organizations.

The result is that no margin of independence is left to any sector of the proletariat that would enable it to develop in accordance with its own aspirations and social interest.

NOTES

1. The openness of the Peruvian economy is shown in the fact that today 40 per cent of the public revenue is derived from exports.

2. William Bollinger: The Rise of US influence in the Peruvian Economy 1869-1921.

3. François Bourricaud: Notas sobre la oligarquía peruana (Notes on the Peruvian oligarchy). Jorge Bravo Bresani: Mito y realidad de la oligarquía peruana (The Peruvian oligarchy: myth and reality). In Perú Problema No. 2. Moncloa-Campodónico Editores Asociados. pp. 13-89.

4. Julio Cotler: La mecánica de la dominación interna y del cambio social en la sociedad rural (The mechanics of internal domination and social change in rural society). Perú Problema No. 1. Francisco Moncloa Editores S.A. pp. 153-197.

5. Sixty-four per cent of the national income is in the hands of 10 per cent of the population.

6. Julio Cotler: ibid.

7. Peter Klaren: La formación de las haciendas azucareras y los origenes del Apra (The establishment of the sugar plantations and the beginning of Apra). Perú Problema No. 5. Moncloa-Campodónico Editores Asociados, 214 p.

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9. Aníbal Quijano: El Perú en la crisis de los años 30 (Peru in the crisis of the 1930s). (ms)

10. Liisa North: Origins and Development of the Peruvian Aprista Party (ms)

11. The annual growth rate of Peruvian exports in the 1950s was 6.6 per cent.

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13.

14. Aníbal Quijano: Tendencies in Peruvian Development and Class Structure. In: J. Petras and M. Zeitlin (eds.) Latin America: Reform or Revolution.

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Giorgio Alberti: Los movimientos campesinos (Rural movements). In: La hacienda, la comunidad y el campesinos en el Perú. Instituto de Estudios Peruanos, 1970.
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27. CAEM: El Estado y la política general, Chorrillos 1963, p. 89, quoted by Luigi Einaudi and A. Stepan: Latin American Institutional Development: Changing Military Perspectives in Peru and Brazil. Rand Corporation, 1971.

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29. Ministerio de Guerra: Las guerrillas en el Perú y su represión (The guerrillas in Peru and their repression) 1966, p. 80.

30. Samuel Huntingdon: Political Order in Changing Societies. Yale University Press. p. 243.

31. Presidencia de la República: Plan Nacional de Desarrollo para 1971-1975 (National Development Plan for 1971-1975).

32. Plan ... p. 11.

33. Velasco, la voz de la revolución. Discursos del Presidente de la República 1968-70 (Velasco, the voice of the revolution. Speeches by the President of the Republic, 1968-1970).

34. idem, p. 115.

35. idem, p. 152.

36. idem, p.

37. idem, p. 130.

38. idem, p. 139.

39. idem, p. 114.

40. idem, p. 35.

41. idem, p. 33.

42. Plan ... p. 12.

43. idem, p. 14.

44. Velasco, la voz de la revolución ... p. 202.

45. idem, pp. 9-10 and 11.

46. idem, p. 204.

47. Grupo Andino. Separata No. 4, July 1971.

48. Note the similarity to the model by Raul Prebisch in Transformación y Desarrollo.

Anfbal Quijano: Nacionalismo, Neoimperialismo y Militarismo en el Perú (Nationalism, neo-imperialism and militarism in Peru).

49. H. van de Wetering: La Reforma agraria: un enfoque dirigido a medir su impacto en la economía provincial (The agrarian reform: an inquiry into its impact on provincial economy).

50. David C. Loring: "La cuestión de las 200 millas" (The question of the 200 miles). In: Daniel A. Sharp. Estados Unidos y la revolución peruana. pp. 139-212.

51. Richard Goodwin: Letter from Peru.
Sherman Lewis: The IPC vs Peru.

52. Robert Klitgaard: Observations on the Peruvian National Plan for Development 1971-75. Inter-American Economic Affairs, Winter 1971, pp. 3-22.

53. Plan ... p. 45.

54. Plan ... p. 46.

55. Plan ... p. 48.

56. Anfbal Quijano: op cit.; see also "Imperialismo y Capitalismo de Estado" (Imperialism and State capitalism), in Sociedad y Política, No. 1, Lima. pp. 3-18.

57. Anfbal Quijano: Naturaleza y tendencias de la sociedad peruana (The character and trends of Peruvian society).

58. Julio Cotler: La mecánica de la dominación interna (The mechanics of internal domination). See also Crisis política y populismo militar en Perú Hoy (Political crisis and military populism in Peru today). Siglo xxi.

59. Eric Hobsbawm:

60. V.R. Haya de la Torre: El Anti-imperialismo y el Apra (Anti-imperialism and the APRA party).

61. See, in this connexion, the works of Kalman Silvert, Juan Linz, Eric Wolf, Howard Wiarda, Claudio Véliz.

62. Plan Nacional ... p. 34.

63. idem, pp. 31-32.